UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED MAY 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO .

Commission File No. 1-10635

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NIKE, Inc.

(Exact name of Registrant as specified in its charter)

Oregon	**93-0584541**
(State or other jurisdiction of incorporation)	*(IRS Employer Identification No.)*

One Bowerman Drive, Beaverton, Oregon 97005-6453
(Address of principal executive offices and zip code)

(503) 671-6453
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Class B Common Stock	**NKE**	**New York Stock Exchange**
(Title of each class)	*(Trading symbol)*	*(Name of each exchange on which registered)*

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

Indicate by check mark:	YES	NO
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☑	☐
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☑
• 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.	☑	☐
• whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).	☑	☐

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

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth company	☐

• if an emerging growth company, if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	☐	
• whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.	☑	
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	☐	☑

As of November 30, 2021, the aggregate market values of the Registrant's Common Stock held by non-affiliates were:

Class A	$	12,101,887,328
Class B		215,898,023,875
	$	227,999,911,203

As of July 8, 2022, the number of shares of the Registrant's Common Stock outstanding were:

Class A	304,903,252
Class B	1,263,652,653
	1,568,555,905

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on September 9, 2022, are incorporated by reference into Part III of this Report.

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ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. BUSINESS

GENERAL

NIKE, Inc. was incorporated in 1967 under the laws of the State of Oregon. As used in this report, the terms "we," "us," "NIKE" and the "Company" refer to NIKE, Inc. and its predecessors, subsidiaries and affiliates, collectively, unless the context indicates otherwise. Our NIKE digital commerce website is located at *www.nike.com*. On our NIKE corporate website, located at *investors.nike.com*, we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the United States Securities and Exchange Commission (the "SEC"): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended. Our definitive Proxy Statements are also posted on our corporate website. All such filings on our corporate website are available free of charge. Copies of these filings are also available on the SEC's website (*www.sec.gov*). Also available on our corporate website are the charters of the committees of our Board of Directors, as well as our corporate governance guidelines and code of ethics; copies of any of these documents will be provided in print to any shareholder who submits a request in writing to NIKE Investor Relations, One Bowerman Drive, Beaverton, Oregon 97005-6453. Information contained on or accessible through our website is not incorporated into, and does not form a part of, this Annual Report or any other report or document we file with the SEC, and any references to our website are intended to be inactive textual references only.

Our principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE Direct operations, which are comprised of both NIKE-owned retail stores and sales through our digital platforms (also referred to as "NIKE Brand Digital"), to retail accounts and to a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. We also offer interactive consumer services and experiences through our digital platforms. Virtually all of our products are manufactured by independent contractors. Nearly all footwear and apparel products are manufactured outside the United States, while equipment products are manufactured both in the United States and abroad.

All references to fiscal 2022, 2021, 2020 and 2019 are to NIKE, Inc.'s fiscal years ended May 31, 2022, 2021, 2020 and 2019, respectively. Any references to other fiscal years refer to a fiscal year ending on May 31 of that year.

PRODUCTS

Our NIKE Brand product offerings are aligned around our consumer construct focused on Men's, Women's and Kids'. We also design products specifically for the Jordan Brand and Converse. We believe this approach allows us to create products that better meet individual consumer needs while accelerating our largest growth opportunities.

NIKE's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. We place considerable emphasis on innovation and high-quality construction in the development and manufacturing of our products. Our Men's, Women's and Jordan Brand footwear products currently lead in footwear sales and we expect them to continue to do so.

We also sell sports apparel, which features the same trademarks and are sold predominantly through the same marketing and distribution channels as athletic footwear. Our sports apparel, similar to our athletic footwear products, is designed primarily for athletic use, although many of the products are worn for casual or leisure purposes, and demonstrates our commitment to innovation and high-quality construction. Our Men's and Women's apparel products currently lead in apparel sales and we expect them to continue to do so. We often market footwear, apparel and accessories in "collections" of similar use or by category. We also market apparel with licensed college and professional team and league logos.

We sell a line of performance equipment and accessories under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, digital devices, bats, gloves, protective equipment and other equipment designed for sports activities. We also sell small amounts of various plastic products to other manufacturers through our wholly-owned subsidiary, NIKE IHM, Inc., doing business as Air Manufacturing Innovation.

Our Jordan Brand designs, distributes and licenses athletic and casual footwear, apparel and accessories predominantly focused on basketball performance and culture using the Jumpman trademark. Sales and operating results for Jordan Brand products are reported within the respective NIKE Brand geographic operating segments.

Our wholly-owned subsidiary brand, Converse, headquartered in Boston, Massachusetts, designs, distributes and licenses casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

In addition to the products we sell to our wholesale customers and directly to consumers through our NIKE Direct operations, we have also entered into license agreements that permit unaffiliated parties to manufacture and sell, using NIKE-owned trademarks, certain apparel, digital devices and applications and other equipment designed for sports activities.

We also offer interactive consumer services and experiences as well as digital products through our digital platforms, including fitness and activity apps; sport, fitness and wellness content; and digital services and features in retail stores that enhance the consumer experience.

SALES AND MARKETING

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third fiscal quarters. However, the mix of product sales may vary considerably as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment, as well as other macroeconomic, strategic, operating and logistics-related factors, as evidenced by the impact of the COVID-19 pandemic.

Because NIKE is a consumer products company, the relative popularity and availability of various sports and fitness activities, as well as changing design trends, affect the demand for our products. We must, therefore, respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories and influencing sports and fitness preferences through extensive marketing. Failure to respond in a timely and adequate manner could have a material adverse effect on our sales and profitability. This is a continuing risk. Refer to Item 1A. Risk Factors.

OUR MARKETS

We report our NIKE Brand operations based on our internal geographic organization. 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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands. The Hurley brand results, prior to its divestiture in fiscal 2020, were included in North America. Sales through our NIKE Direct operations are managed within each geographic operating segment.

Converse is also a reportable operating segment and operates predominately in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. Converse direct to consumer operations, including digital commerce, are reported within the Converse operating segment results.

UNITED STATES MARKET

For fiscal 2022, NIKE Brand and Converse sales in the United States accounted for approximately 40% of total revenues, compared to 39% for both fiscal 2021 and fiscal 2020. We sell our NIKE Brand, Jordan Brand and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops and other retail accounts. In the United States, we utilize NIKE sales offices to solicit such sales. During fiscal 2022, our three largest United States customers accounted for approximately 22% of sales in the United States.

Our NIKE Direct and Converse direct to consumer operations sell NIKE Brand, Jordan Brand and Converse products to consumers through various digital platforms. In addition, our NIKE Direct and Converse direct to consumer operations sell products through the following number of retail stores in the United States:

U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	209
NIKE Brand in-line stores (including employee-only stores)	48
Converse stores (including factory stores)	87
TOTAL	**344**

In the United States, NIKE has eight significant distribution centers. Five are located in or near Memphis, Tennessee, two of which are owned and three of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. One distribution center for Converse is located in Ontario, California, which is leased. There are other smaller distribution facilities located in various parts of the United States, some of which are leased or operated by third parties.

INTERNATIONAL MARKETS

For fiscal 2022, non-U.S. NIKE Brand and Converse sales accounted for approximately 60% of total revenues, compared to 61% for fiscal 2021 and fiscal 2020. We sell our products to retail accounts through our own NIKE Direct operations and through a mix of independent distributors, licensees and sales representatives around the world. We sell to thousands of retail accounts and ship products from 72 distribution centers outside of the United States. During fiscal 2022, NIKE's three largest customers outside of the United States accounted for approximately 14% of total non-U.S. sales.

In addition to NIKE-owned and Converse-owned digital commerce platforms in over 45 countries, our NIKE Direct and Converse direct to consumer businesses operate the following number of retail stores outside the United States:

NON-U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	597
NIKE Brand in-line stores (including employee-only stores)	47
Converse stores (including factory stores)	58
TOTAL	**702**

International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Macau, Malaysia, Mexico, the Netherlands, New Zealand, Norway, the Philippines, Poland, Portugal, Russia, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

SIGNIFICANT CUSTOMER

No customer accounted for 10% or more of our consolidated net Revenues during fiscal 2022.

PRODUCT RESEARCH, DESIGN AND DEVELOPMENT

We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while decreasing our environmental impact.

In addition to our own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields, we also utilize research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists, physicians and other experts who consult with us and review certain designs, materials and concepts for product and manufacturing, design and other process improvements and compliance with product safety regulations around the world. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

As we continue to develop new technologies, we are simultaneously focused on the design of innovative products and experiences incorporating such technologies throughout our product categories and consumer applications. Using market intelligence and research, our various design teams identify opportunities to leverage new technologies in existing categories to respond to consumer preferences. The proliferation of Nike Air, Zoom, Nike Free, Flywire, Dri-Fit, Flyknit, FlyEase, ZoomX, Air Max, Nike React and Nike Adapt technologies, among others, typifies our dedication to designing innovative products.

MANUFACTURING

Virtually all of our footwear and apparel products are manufactured outside the United States by independent manufacturers with whom we contract and refer to as “contract manufacturers.” Many of these contract manufacturers operate multiple finished goods contract factories. We are also supplied, primarily indirectly, by a number of materials, or “Tier 2,” suppliers, who provide the principal materials used in footwear and apparel finished goods products. As of May 31, 2022, we had 139 strategic Tier 2 suppliers.

As of May 31, 2022, we were supplied by 120 finished goods footwear contract factories located in 11 countries. For fiscal 2022, contract factories in Vietnam, Indonesia and China manufactured approximately 44%, 30% and 20% of total NIKE Brand footwear, respectively. The largest single footwear contract factory accounted for approximately 8% of total fiscal 2022 NIKE Brand footwear production. For fiscal 2022, four footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 58% of NIKE Brand footwear production.

As of May 31, 2022, we were supplied by 279 finished goods apparel contract factories located in 33 countries. For fiscal 2022, contract factories in Vietnam, China and Cambodia manufactured approximately 26%, 20% and 16% of total NIKE Brand apparel, respectively. The largest single apparel contract factory accounted for approximately 10% of total fiscal 2022 NIKE Brand apparel production. For fiscal 2022, two apparel contract manufacturers each accounted for more than 10% of apparel production, and the top five contract manufacturers in the aggregate accounted for approximately 54% of NIKE Brand apparel production.

NIKE's contract manufacturers buy raw materials for the manufacturing of our footwear, apparel and equipment products. Most raw materials are available and purchased by those contract manufacturers in the countries where manufacturing takes place.

The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and natural fiber textiles, as well as polyurethane films used to make NIKE Air-Sole cushioning components. During fiscal 2022, Air Manufacturing Innovation, a wholly-owned subsidiary, with facilities near Beaverton, Oregon, in Dong Nai Province, Vietnam, and St. Charles, Missouri, as well as contract manufacturers in China and Vietnam, were our suppliers of NIKE Air-Sole cushioning components used in footwear.

The principal materials used in our apparel products are natural and synthetic fabrics, yarns and threads (both virgin and recycled); specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow; and plastic and metal hardware.

In fiscal 2022, COVID-19 had impacts throughout our supply chain, including loss of production as well as production and transportation delays. However, COVID-19 has not materially impacted the number or concentration of finished goods factories, contract manufacturers, or Tier 2 suppliers in countries where we source footwear and apparel products. Despite competition for certain materials during fiscal 2022, contract manufacturers were able to source sufficient quantities of raw materials for use in our footwear and apparel products. Refer to Item 1A. Risk Factors, for additional discussion of the impact of COVID-19 and sourcing risks on our business.

Since 1972, Sojitz Corporation of America ("Sojitz America"), a large Japanese trading company and the sole owner of our redeemable preferred stock, has performed import-export financing services for us.

INTERNATIONAL OPERATIONS AND TRADE

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as the implementation of, or potential changes in, foreign and domestic trade policies, increases in import duties, anti-dumping measures, quotas, safeguard measures, trade restrictions, restrictions on the transfer of funds and, in certain parts of the world, political tensions, instability, conflicts, nationalism and terrorism, and resulting sanctions and other measures imposed in response to such issues. We have not, to date, been materially affected by any such risk but cannot predict the likelihood of such material effects occurring in the future.

In recent years, uncertain global and regional economic and political conditions have affected international trade and increased protectionist actions around the world. These trends are affecting many global manufacturing and service sectors, and the footwear and apparel industries, as a whole, are not immune. Companies in our industry are facing trade protectionism in many different regions, and, in nearly all cases, we are working together with industry groups to address trade issues and reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, protectionist measures have resulted in increases in the cost of our products, and additional measures, if implemented, could adversely affect sales and/or profitability for NIKE, as well as the imported footwear and apparel industry as a whole.

We monitor protectionist trends and developments throughout the world that may materially impact our industry, and we engage in administrative and judicial processes to mitigate trade restrictions. We are actively monitoring actions that may result in additional anti-dumping measures and could affect our industry. We are also monitoring for and advocating against other impediments that may limit or delay customs clearance for imports of footwear, apparel and equipment. NIKE also advocates for trade liberalization for footwear and apparel in a number of regional and bilateral free trade agreements. Changes in, and responses to, U.S. trade policies, including the imposition of tariffs or penalties on imported goods or retaliatory measures by other countries, have negatively affected, and could in the future negatively affect, U.S. corporations, including NIKE, with business operations and/or consumer markets in those countries, which could also make it necessary for us to change the way we conduct business, either of which may have an adverse effect on our business, financial condition or our results of operations. In addition, with respect to proposed trade restrictions, we work with a broad coalition of global businesses and trade associations representing a wide variety of sectors to help ensure that any legislation enacted and implemented (i) addresses legitimate and core concerns, (ii) is consistent with international trade rules and (iii) reflects and considers domestic economies and the important role they may play in the global economic community.

Where trade protection measures are implemented, we believe we have the ability to develop, over a period of time, adequate alternative sources of supply for the products obtained from our present suppliers. If events prevented us from acquiring products from our suppliers in a particular country, our operations could be temporarily disrupted and we could experience an adverse financial impact. However, we believe we could abate any such disruption, and that much of the adverse impact on supply would, therefore, be of a short-term nature, although alternate sources of supply might not be as cost-effective and could have an ongoing adverse impact on profitability.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or "FCPA", and other anti-bribery laws applicable to our operations. We source a significant portion of our products from, and have important consumer markets, outside of the United States. We have an ethics and compliance program to address compliance with the FCPA and similar laws by us, our employees, agents, suppliers and other partners. Refer to Item 1A. Risk Factors for additional information on risks relating to our international operations.

COMPETITION

The athletic footwear, apparel and equipment industry is highly competitive on a worldwide basis. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment, including adidas, Anta, ASICS, Li Ning, lululemon athletica, Puma, Under Armour and V.F. Corporation, among others. The intense competition and the rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment constitute significant risk factors in our operations. Refer to Item 1A. Risk Factors for additional information.

NIKE is the largest seller of athletic footwear and apparel in the world. Important aspects of competition in this industry are:

- Product attributes such as quality; performance and reliability; new product style, design, innovation and development; as well as consumer price/value.
- Consumer connection, engagement and affinity for brands and products, developed through marketing, promotion and digital experiences; social media interaction; customer support and service; identification with prominent and influential athletes, influencers, public figures, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics.
- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and on digital platforms.

We believe that we are competitive in all of these areas.

TRADEMARKS AND PATENTS

We believe that our intellectual property rights are important to our brand, our success and our competitive position. We strategically pursue available protections of these rights and vigorously protect them against third-party theft and infringement.

We use trademarks on nearly all of our products and packaging, and in our marketing materials, and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and the Company, and in distinguishing our goods from the goods of others. We consider our NIKE and Swoosh Design trademarks to be among our most valuable assets and we have registered these trademarks in over 190 jurisdictions worldwide. In addition, we own many other trademarks that we use in marketing our products. We own common law rights in the trade dress of several distinctive shoe designs and elements. For certain trade dress, we have sought and obtained trademark registrations.

We have copyright protection in our designs, graphics, software applications, digital goods and other original works. When appropriate, we also obtain registered copyrights.

We file for, own and maintain many U.S. and foreign utility and design patents protecting components, technologies, materials, manufacturing techniques, features, functionality, and industrial designs used in and for the manufacture of various athletic, performance, and leisure footwear and apparel, including physical and digital versions thereof, athletic equipment, and digital devices, and related software applications. These patents expire at various times.

We believe our success depends upon our capabilities in areas such as design, research and development, production and marketing and is supported and protected by our intellectual property rights, such as trademarks, utility and design patents, copyrights, and trade secrets, among others.

We have followed a policy of applying for and registering intellectual property rights in the United States and select foreign countries on trademarks, inventions, innovations and designs that we deem valuable. We also continue to vigorously protect our intellectual property, including trademarks, patents and trade secrets against third-party infringement and misappropriation.

HUMAN CAPITAL RESOURCES

At NIKE, we consider the strength and effective management of our workforce to be essential to the ongoing success of our business. We believe that it is important to attract, develop and retain a diverse and engaged workforce at all levels of our business and that such a workforce fosters creativity and accelerates innovation. We are focused on building an increasingly diverse talent pipeline that reflects our consumers, athletes and the communities we serve.

CULTURE

Each employee shapes NIKE's culture through behaviors and practices. This starts with our Maxims, which represent our core values and, along with our Code of Conduct, feature the fundamental behaviors that help anchor, inform and guide us and apply to all employees. Our mission is to bring inspiration and innovation to every athlete in the world, which includes the belief that if you have a body, you are an athlete. We aim to do this by creating groundbreaking sport innovations, making our products more sustainably, building a creative and diverse global team, supporting the well-being of our employees and making a positive impact in communities where we live and work. Our mission is aligned with our deep commitment to maintaining an environment where all NIKE employees have the opportunity to reach their full potential, to connect to our brands and to shape the culture in which they work. We believe providing for growth and retention of our employees is essential in fostering such a culture and are dedicated to giving access to training programs and career development opportunities, including trainings on NIKE's values, history and business, trainings on developing leadership skills at all levels, tools and resources for managers and qualified tuition reimbursement opportunities.

As part of our commitment to empowering our employees to help shape our culture, we source employee feedback through our Engagement Survey program. The program provides every employee throughout the globe an opportunity to provide confidential feedback on key areas known to drive employee engagement, including their satisfaction with their managers, their work and the Company generally. The program also measures our employees' emotional commitment to NIKE as well as NIKE's culture of diversity, equity and inclusion. NIKE also provides multiple points of contact for employees to speak up if they experience something that does not align with our values or otherwise violates our workplace policies, even if they are uncertain what they observed or heard is a violation of company policy.

As part of our commitment to make a positive impact on our communities, we maintain a goal of investing 2% of our prior fiscal year's pre-tax income into global communities, up from 1.5% in fiscal 2021. The focus of this investment continues to be inspiring kids to be active through play and sport as well as uniting and inspiring communities to create a better and more equitable future for all. Our community investments are an important part of our culture in that we also support employees in giving back to community organizations through donations and volunteering, which are matched by the NIKE Foundation where eligible.

EMPLOYEE BASE

As of May 31, 2022, we had approximately 79,100 employees worldwide, including retail and part-time employees. We also utilize independent contractors and temporary personnel to supplement our workforce.

None of our employees are represented by a union, except certain employees in the EMEA and APLA geographies are members of and/or represented by trade unions, as allowed or required by local law and/or collective bargaining agreements. Also, in some countries outside of the United States, local laws require employee representation by works councils (which may be entitled to information and consultation on certain subsidiary decisions) or by organizations similar to a union. In certain European countries, we are required by local law to enter into, and/or comply with, industry-wide or national collective bargaining agreements. NIKE has never experienced a material interruption of operations due to labor disagreements.

DIVERSITY, EQUITY AND INCLUSION (DE&I)

DE&I is a strategic priority for NIKE and we are committed to having an increasingly diverse team and culture. We aim to foster an inclusive workplace through recruitment, development and retention of diverse talent with the goal of expanding representation across all dimensions of diversity over the long term. We remain committed to the targets announced in fiscal 2021 for the Company to work toward by fiscal 2025, including increasing representation of women in our global corporate workforce and leadership positions, as well as increasing representation of U.S. racial and ethnic minorities in our U.S. corporate workforce and at the Director level and above.

We continue to enhance our efforts to recruit diverse talent through our traditional channels and have launched new initiatives, such as partnerships with athletes and sports-related organizations to create apprenticeship programs and new partnerships with organizations, colleges and universities that serve diverse populations. Additionally, we are prioritizing DE&I education so that all NIKE employees and leaders have the cultural awareness and understanding to build diverse and inclusive teams. We also have Employee Networks, collectively known as NikeUNITED, representing various employee groups.

Our DE&I focus extends beyond our workforce and includes our communities, which we support in a number of ways. We have committed to investments that aim to address racial inequality and improve diversity and representation in our communities. We also are leveraging our global scale to accelerate business diversity, including investing in business training programs for women and increasing the proportion of services supplied by minority-owned businesses.

COMPENSATION AND BENEFITS

NIKE's total rewards are intended to be competitive and equitable, meet the diverse needs of our global teammates and reinforce our values. We are committed to providing comprehensive, competitive and equitable pay and benefits to our employees, and we have invested, and aim to continue to invest, in our employees through growth and development and well-being initiatives. Our initiatives in this area include:

- We are committed to competitive pay and to reviewing our pay and promotion practices annually.
- We have an annual company bonus plan and a retail-focused bonus plan applicable to all eligible employees. Both programs are focused on rewarding employees for company performance, which we believe reinforces our culture and rewards behaviors that support collaboration and teamwork.
- We provide comprehensive family care benefits in the U.S. and globally where practicable, including family planning coverage, backup care and child/elder care assistance as well as an income-based childcare subsidy for eligible employees.
- Our Military Leave benefit provides up to 12 weeks of paid time off every 12 months, and we enhanced our Military Leave benefit for employees called up to serve as part of the U.S. COVID-19 response.
- We offer free access to our Sport Centers at our World Headquarters (WHQ) for our full-time employees and North America store employees.
- We provide employees free access to mindfulness and meditation resources, including membership to Headspace as well as live classes through our Sport Centers.
- Our global Employee Assistance Program (EAP) provides free and confidential counseling to all global employees and their families.
- We provide transgender healthcare coverage for eligible employees covered on the U.S. Health Plan, including access to both restorative services and personal care.

COVID-19 RESPONSE

Since the start of the COVID-19 pandemic, the health and safety of our employees has remained a priority. We have continued to follow and communicate guidance provided by the Centers for Disease Control and Prevention (CDC) and local public health authorities, as well as mandates set by state and local law as a part of our continued response and focus on mitigating the spread of COVID-19. We developed a comprehensive risk assessment, infection control plans, and employee education campaigns. Our robust health and safety measures have included staffing a team of fully dedicated contact tracers, sourcing and distributing over 1 million NIKE face coverings to teammates worldwide, facilitating access to COVID-19 testing, and offering on-site vaccination clinics in collaboration with local public health agencies. As the pandemic continues, we continue to strongly encourage that all employees become fully vaccinated. We continue to support our employees by offering all eligible employees paid COVID-19 sick leave for two weeks, in addition to existing paid time off benefits and legally mandated sick leave programs, which covers physical health, mental and emotional well-being and care for a family member. We also provide the option for employees to utilize up to two weeks of paid time off in advance of accrued balances, if needed.

Additional information related to our human capital strategy can be found in our FY21 NIKE, Inc. Impact Report, which is available on the Impact section of our website. Information contained on or accessible through our websites is not incorporated into, and does not form a part of, this Annual Report or any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The executive officers of NIKE, Inc. as of July 21, 2022, are as follows:

nke-20220531_g2.jpg	***Mark G. Parker***, Executive Chairman — Mr. Parker, 66, is Executive Chairman of the Board of Directors and served as President and Chief Executive Officer from 2006 - January 2020. He has been employed by NIKE since 1979 with primary responsibilities in product research, design and development, marketing and brand management. Mr. Parker was appointed divisional Vice President in charge of product development in 1987, corporate Vice President in 1989, General Manager in 1993, Vice President of Global Footwear in 1998 and President of the NIKE Brand in 2001.
nke-20220531_g3.jpg	***John J. Donahoe II***, President and Chief Executive Officer — Mr. Donahoe, 62, was appointed President and Chief Executive Officer in January 2020 and has been a director since 2014. He brings expertise in digital commerce, technology and global strategy. He previously served as President and Chief Executive Officer at ServiceNow, Inc. Prior to joining ServiceNow, Inc., he served as President and Chief Executive Officer of eBay, Inc. He also held leadership roles at Bain & Company for two decades.
nke-20220531_g4.jpg	***Andrew Campion***, Chief Operating Officer — Mr. Campion, 50, joined NIKE in 2007 as Vice President of Global Planning and Development, leading strategic and financial planning. He was appointed Chief Financial Officer of the NIKE Brand in 2010, responsible for leading all aspects of financial management for the Company's flagship brand. In 2014, he was appointed Senior Vice President, Strategy, Finance and Investor Relations. Mr. Campion assumed the role of Executive Vice President and Chief Financial Officer in August 2015. In April 2020, he was appointed Chief Operating Officer and leads NIKE's global technology and digital transformation, demand and supply management, manufacturing, distribution and logistics, sustainability, workplace design and connectivity, and procurement. Prior to joining NIKE, he held leadership roles in strategic planning, mergers and acquisitions, financial planning and analysis, operations and planning, investor relations and tax at The Walt Disney Company.
nke-20220531_g5.jpg	***Matthew Friend***, Executive Vice President and Chief Financial Officer — Mr. Friend, 44, joined NIKE in 2009 as Senior Director of Corporate Strategy and Development, and was appointed Chief Financial Officer of Emerging Markets in 2011. In 2014, Mr. Friend was appointed Chief Financial Officer of Global Categories, Product and Functions, and was subsequently appointed Chief Financial Officer of the NIKE Brand in 2016. He was also appointed Vice President of Investor Relations in 2019. Mr. Friend was appointed as Executive Vice President and Chief Financial Officer of NIKE, Inc. in April 2020. Prior to joining NIKE, he worked in the financial industry including roles as VP of investment banking and mergers and acquisitions at Goldman Sachs and Morgan Stanley.
nke-20220531_g6.jpg	***Ann M. Miller***, Executive Vice President, Chief Legal Officer — Ms. Miller, 48, joined NIKE in 2007 and serves as EVP, Chief Legal Officer for NIKE, Inc. In her capacity as Chief Legal Officer, she oversees all legal, compliance, government & public affairs, social community impact, security, resilience and investigation matters of the Company. For the past six years, she served as Vice President, Corporate Secretary and Chief Ethics & Compliance Officer. She previously served as Converse's General Counsel, and brings more than 20 years of legal and business expertise to her role. Prior to joining NIKE, Ms. Miller worked at the law firm Sullivan & Cromwell.
nke-20220531_g7.jpg	***Monique S. Matheson***, Executive Vice President, Chief Human Resources Officer — Ms. Matheson, 55, joined NIKE in 1998, with primary responsibilities in the human resources function. She was appointed as Vice President and Senior Business Partner in 2011 and Vice President, Chief Talent and Diversity Officer in 2012. Ms. Matheson was appointed Executive Vice President, Global Human Resources in 2017.
nke-20220531_g8.jpg	***Heidi O'Neill***, President of Consumer and Marketplace — Ms. O'Neill, 57, joined NIKE in 1998, and held a variety of leadership roles, including President of NIKE Direct, where she was responsible for NIKE's connection to its consumer globally through the Company's retail and digital-commerce business. She also led NIKE's women's business for seven years, growing it into a multi-billion dollar business, and leading the Company's North America apparel business as VP/GM. Ms. O'Neill was appointed as President of Consumer and Marketplace in April 2020 and is responsible for NIKE's Direct business, including all stores, e-commerce and apps globally.

ITEM 1A. RISK FACTORS

Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historic information, including estimates, projections, statements relating to NIKE's business plans, objectives and expected operating or financial 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 SEC, 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 SEC, including reports filed on Forms 8-K, 10-Q and 10-K, and include, among others, the following: health epidemics, pandemics and similar outbreaks, including the COVID-19 pandemic; international, national and local political, civil, economic and market conditions; the size and growth of the overall athletic or leisure footwear, apparel and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic or leisure 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; our ability to execute on our sustainability strategy and achieve our sustainability-related goals and targets, including sustainable product offerings; difficulties in implementing, operating and maintaining NIKE's increasingly complex information technology 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 orders may not be indicative of future revenues due to changes in shipment timing, the changing mix of orders with shorter lead times, 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 and an inability to maintain NIKE's reputation and brand image, including without limitation, through social media or in connection with brand damaging events; 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 of the United States, including, without limitation, exchange rate fluctuations, inflation, import duties, tariffs, quotas, sanctions, political and economic instability, conflicts and terrorism; the potential impact of new and existing laws, regulations or policy, including, without limitation, tariffs, import/export, trade, wage and hour or labor and immigration regulations or policies; changes in government regulations; the impact of, including business and legal developments relating to, climate change, extreme weather conditions and natural disasters; litigation, regulatory proceedings, sanctions or any other claims asserted against NIKE; the ability to attract and retain qualified employees, and any negative public perception with respect to key personnel or our corporate culture, values or purpose; the effects of NIKE's decision to invest in or divest of businesses or capabilities and other factors referenced or incorporated by reference in this report and other reports.

Risk Factors

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 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.

Economic and Industry Risks

Global economic conditions could have a material adverse effect on our business, operating results and financial condition.

The uncertain state of the global economy continues to impact businesses around the world. If global economic and financial market conditions deteriorate, the following factors could have a material adverse effect on our business, operating results and financial condition:

- Our sales are impacted by discretionary spending by consumers. Declines in consumer spending have in the past and in the future may result in reduced demand for our products, increased inventories, reduced orders from retailers for our products, order cancellations, lower revenues, higher discounts and lower gross margins.
- In the future, we may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so.
- We conduct transactions in various currencies, which creates exposure to fluctuations in foreign currency exchange rates relative to the U.S. Dollar. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies could have a significant impact on our reported operating results and financial condition.
- Continued volatility in the availability and prices for commodities and raw materials we use in our products and in our supply chain (such as cotton or petroleum derivatives) could have a material adverse effect on our costs, gross margins and profitability. In addition, supply chain issues caused by factors including the COVID-19 pandemic and geopolitical conflicts have impacted and may continue to impact the availability, pricing and timing for obtaining commodities and raw materials.
- If retailers of our products experience declining revenues or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, late retailer payments, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense.
- If retailers of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could negatively impact the sale of our products to consumers. If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products.

Our financial condition and results of operations have been, and could in the future be, adversely affected by the COVID-19 pandemic.

A novel strain of coronavirus (COVID-19) was first identified in Wuhan, China in December 2019, and subsequently declared a pandemic by the World Health Organization. The COVID-19 pandemic and preventative measures taken to contain or mitigate the pandemic have caused, and may in the future cause, business slowdown or shutdown in affected areas and significant disruption in the financial markets, both globally and in the United States. These events have led to and could again lead to adverse impacts to our global supply chain, factory cancellation costs, store closures, and a decline in retail traffic and discretionary spending by consumers and, in turn, materially impact our business, sales, financial condition and results of operations as well as cause a volatile effective tax rate driven by changes in the mix of earnings across our jurisdictions. We cannot predict whether, and to what degree, our sales, operations and financial results could in the future be affected by the pandemic and preventative measures. Risks presented by the COVID-19 pandemic include, but are not limited to:

- Deterioration in economic conditions in the United States and globally, including the effect of prolonged periods of inflation on our consumers and vendors;
- Disruption to our distribution centers, contract manufacturers, finished goods contract factories and other vendors, through the effects of facility closures, increased operating costs, reductions in operating hours, labor shortages, and real time changes in operating procedures, such as additional cleaning and disinfection procedures, which have had, and could in the future again have, a significant impact on our planned inventory production and distribution, including higher inventory levels or inventory shortages in various markets;
- Impacts to our distribution and logistics providers' ability to operate, including labor and container shortages, and increases in their operating costs. These supply chain effects have had, and could in the future have, an adverse effect on our ability to meet consumer demand, including digital demand, and have in the past resulted in and could in the

future result in extended inventory transit times and an increase in our costs of production and distribution, including increased freight and logistics costs and other expenses;

- Decreased retail traffic as a result of store closures, reduced operating hours, social distancing restrictions and/or changes in consumer behavior;

- Reduced consumer demand for our products if consumers seek to reduce or delay discretionary spending in response to the impacts of COVID-19, including as a result of a rise in unemployment rates, higher costs of borrowing, inflation and diminished consumer confidence;
- Cancellation or postponement of sports seasons and sporting events in multiple countries, including in the United States, and bans on large public gatherings, which have reduced consumer spending on our products and could impact the effectiveness of our arrangements with key endorsers;
- The risk that any safety protocols in NIKE-owned or affiliated facilities, including our offices, will not be effective or not be perceived as effective, or that any virus-related illnesses will be linked or alleged to be linked to such facilities, whether accurate or not;
- Incremental costs resulting from the adoption of preventative measures and compliance with regulatory requirements, including providing facial coverings and hand sanitizer, rearranging operations to follow social distancing protocols, conducting temperature checks, COVID-19 testing and undertaking regular and thorough disinfecting of surfaces;
- Bankruptcies or other financial difficulties facing our wholesale customers, which could cause them to be unable to make or delay making payments to us, or result in revised payment terms, cancellation or reduction of their orders;
- Operational risk, including but not limited to cybersecurity risks, as a result of continued workforce remote work arrangements, and restrictions on employee travel; and
- Significant disruption of and volatility in global financial markets, which could have a negative impact on our ability to access capital in the future.

We continue to monitor the latest developments regarding the pandemic and have made certain assumptions regarding the pandemic for purposes of our operating, financial and tax planning projections, including assumptions regarding the duration and severity of the pandemic and the global macroeconomic impacts of the pandemic. However, we are unable to accurately predict the extent of the impact of the pandemic on our business, operations and financial condition due to the uncertainty of future developments. In particular, we believe the ultimate impacts on our business, results of operations, cash flows and financial condition will depend on, among other things, the further spread and duration of COVID-19, including emerging variant strains of COVID-19, the requirements to take action to help limit the spread of the illness, the impact of the easing of restrictions in various regions, the availability, widespread distribution and acceptance, as well as the safety and efficacy of vaccines for COVID-19 and the economic impacts of the pandemic. Even in those regions where we have experienced business recovery, should those regions fail to fully contain COVID-19 or suffer a COVID-19 relapse, those markets may not recover as quickly or at all, which could have a material adverse effect on our business, results of operations and financial condition. Additionally, COVID-19 related disruptions are making it more challenging to compare our performance, including our revenue growth and overall profitability, across quarters and fiscal years. The pandemic may also affect our business, results of operations or financial condition in a manner that is not presently known to us or that we currently do not consider to present significant risks.

In addition, the impact of COVID-19 may also exacerbate, or occur concurrently with, other risks discussed in this Item 1A. Risk Factors, any of which could have a material effect on us.

Our products, services and experiences face intense competition.

NIKE is a consumer products company and the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products, services and experiences. The athletic footwear, apparel and equipment industry is highly competitive both in the United States and worldwide. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies, private labels and large companies that have diversified lines of athletic and leisure footwear, apparel and equipment. We also compete with other companies for the production capacity of contract manufacturers that produce our products. In addition, we and our contract manufacturers compete with other companies and industries for raw materials used in our products. Our NIKE Direct operations, both through our digital commerce operations and retail stores, also compete with multi-brand retailers, which sell our products through their digital platforms and physical stores, and with digital commerce platforms. In addition, we compete with respect to the digital services and experiences we are able to offer our consumers, including fitness and activity apps; sport, fitness and wellness content and services; and digital services and features in retail stores that enhance the consumer experience.

Product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, customer service, digital commerce platforms, digital services and experiences and social media presence are areas of intense competition. These, in addition to ongoing rapid changes in technology, a reduction in barriers to the creation of new footwear and apparel companies and consumer preferences in the markets for athletic and leisure footwear, apparel, and equipment, services and experiences, constitute significant risk factors in our operations. In addition, the competitive nature of retail, including shifts in the ways in which consumers shop, and the continued proliferation of digital commerce, constitutes a risk factor implicating our NIKE Direct and wholesale operations. If we do not adequately and timely anticipate and respond to our competitors, our costs may increase, demand for our products may decline, possibly significantly, or we may need to reduce wholesale or suggested retail prices for our products.

Economic factors beyond our control, and changes in the global economic environment, including fluctuations in inflation and currency exchange rates, could result in lower revenues, higher costs and decreased margins and earnings.

A majority of our products are manufactured and sold outside of the United States, and we conduct purchase and sale transactions in various currencies, which creates exposure to the volatility of global economic conditions, including fluctuations in inflation and foreign currency exchange rates. Central banks may deploy various strategies to combat inflation, including increasing interest rates, which may impact our borrowing costs. Additionally, there has been, and may continue to be, volatility in currency exchange rates including as a result of U.S. policy changes and the Russia and Ukraine conflict that impact the U.S. Dollar value relative to other international currencies. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into U.S. Dollars for consolidated financial reporting, as weakening of foreign currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations have adversely affected and could continue to have an adverse effect on our results of operations and financial condition.

We may hedge certain foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger U.S. Dollar or other trading currency, but they also reduce the positive impact of a weaker U.S. Dollar or other trading currency. Our future financial results could be significantly affected by the value of the U.S. Dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

We may be adversely affected by the financial health of our customers.

We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of our products, we offer certain customers the opportunity to place orders five to six months ahead of delivery under our futures ordering program. These advance orders may be canceled under certain conditions, and the risk of cancellation may increase when dealing with financially unstable retailers or retailers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties up to and including bankruptcies, which have had an adverse effect on our sales, our ability to collect on receivables and our financial condition. When the retail economy weakens or as consumer behavior shifts, retailers may be more cautious with orders. A slowing or changing economy in our key markets could adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operations and financial condition. In addition, product sales are dependent in part on high quality merchandising and an appealing retail environment to attract consumers, which requires continuing investments by retailers. Retailers that experience financial difficulties may fail to make such investments or delay them, resulting in lower sales and orders for our products. The ongoing financial uncertainty surrounding COVID-19, particularly for retailers, could also have an effect on our sales, our ability to collect on receivables and our financial condition.

Climate change and other sustainability-related matters, or legal, regulatory or market responses thereto, may have an adverse impact on our business and results of operations.

There are concerns that increased levels of carbon dioxide and other greenhouse gases in the atmosphere have caused, and may continue to cause, potentially at a growing rate, increases in global temperatures, changes in weather patterns and increasingly frequent and/or prolonged extreme weather and climate events. Climate change may also exacerbate challenges relating to the availability and quality of water and raw materials, including those used in the production of our products, and may result in changes in regulations or consumer preferences, which could in turn affect our business, operating results and financial condition. For example, there has been increased focus by governmental and non-governmental organizations, consumers, customers, employees and other stakeholders on products that are sustainably made and other sustainability matters, including responsible sourcing and deforestation, the use of plastic, energy and water, the recyclability or recoverability of packaging and materials transparency, any of which may require us to incur increased costs for additional transparency, due diligence and reporting. In addition, federal, state or local governmental authorities in various countries have proposed, and are likely to continue to propose, legislative and regulatory initiatives to reduce or mitigate the impacts of climate change on the environment. Various countries and regions are following different approaches to the regulation of climate change, which could increase the complexity of, and potential cost related to complying with, such regulations. Any of the foregoing may require us to make additional investments in facilities and equipment, may impact the availability and cost of key raw materials used in the production of our products or the demand for our products, and, in turn, may adversely impact our business, operating results and financial condition.

Although we have announced sustainability-related goals and targets, there can be no assurance that our stakeholders will agree with our strategies, and any perception, whether or not valid, that we have failed to achieve, or to act responsibly with respect to, such matters or to effectively respond to new or additional legal or regulatory requirements regarding climate change, could result in adverse publicity and adversely affect our business and reputation. Execution of these strategies and achievement of our goals is subject to risks and uncertainties, many of which are outside of our control. These risks and uncertainties include, but are not limited to, our ability to execute our strategies and achieve our goals within the currently projected costs and the expected timeframes; the availability and cost of raw materials and renewable energy; unforeseen production, design, operational and technological difficulties; the outcome of research efforts and future technology developments, including the ability to scale projects and technologies on a commercially competitive basis such as carbon sequestration and/or other related processes; compliance with, and changes or additions to, global and regional regulations, taxes, charges, mandates or requirements relating to greenhouse gas emissions, carbon costs or climate-related goals; adapting products to customer preferences and customer acceptance of sustainable supply chain solutions; and the actions of competitors and competitive pressures. As a result, there is no assurance that we will be able to successfully execute our strategies and achieve our sustainability-related goals, which could damage our reputation and customer and other stakeholder relationships and have an adverse effect on our business, results of operations and financial condition.

Extreme weather conditions and natural disasters could negatively impact our operating results and financial condition.

Given the broad and global scope of our operations, we are particularly vulnerable to the physical risks of climate change, such as shifts in weather patterns. Extreme weather conditions in the areas in which our retail stores, suppliers, manufacturers, customers, distribution centers, offices, headquarters and vendors are located could adversely affect our operating results and financial condition. Moreover, natural disasters such as earthquakes, hurricanes, wildfires and tsunamis, whether occurring in the United States or abroad, and their related consequences and effects, including energy shortages and public health issues, have in the past temporarily disrupted, and could in the future disrupt, our operations, the operations of our vendors, manufacturers and other suppliers or have in the past resulted in, and in the future could result in, economic instability that may negatively impact our operating results and financial condition. In particular, if a natural disaster or severe weather event were to occur in an area in which we or our suppliers, manufacturers, employees, customers, distribution centers and vendors are located, our continued success would depend, in part, on the safety and availability of the relevant personnel and facilities and proper functioning of our or third parties' computer, network, telecommunication and other systems and operations. In addition, a natural disaster or severe weather event could negatively impact retail traffic to our stores or stores that carry our products and could have an adverse impact on consumer spending, any of which could in turn result in negative point-of-sale trends for our merchandise. Further, climate change may increase both the frequency and severity of extreme weather conditions and natural disasters, which may affect our business operations, either in a particular region or globally, as well as the activities of our third-party vendors and other suppliers, manufacturers and customers. We believe the diversity of locations in which we operate, our operational size, disaster recovery and business continuity planning and our information technology systems and networks, including the Internet and third-party services (“Information Technology Systems”) position us well, but may not be sufficient for all or for concurrent eventualities. If we were to experience a local or regional disaster or other business continuity event or concurrent events, we could still experience operational challenges, in particular depending upon how a local or regional event may affect our human capital across our operations or with regard to particular aspects of our operations, such as key executive officers or personnel. For example, our World Headquarters are located in an active seismic zone, which is at a higher risk for earthquakes and the related consequences or effects. Further, if we are unable to find alternative suppliers, replace capacity at key manufacturing or distribution locations or quickly repair damage to our Information Technology Systems or supply systems, we could be late in delivering, or be unable to deliver, products to our customers. These events could result in reputational damage, lost sales, cancellation charges or markdowns, all of which could have an adverse effect on our business, results of operations and financial condition.

Business and Operational Risks

Failure to maintain our reputation, brand image and culture could negatively impact our business.

Our iconic brands have worldwide recognition, and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining, promoting and growing our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, product innovation and product quality. Our commitment to product innovation, quality and sustainability, and our continuing investment in design (including materials), marketing and sustainability measures may not have the desired impact on our brand image and reputation. In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media and digital environment, including our increasing reliance on social media and digital dissemination of advertising campaigns on our digital platforms and through our digital experiences and products. We could be adversely impacted if we fail to achieve any of these objectives.

Our brand value also depends on our ability to maintain a positive consumer perception of our corporate integrity, purpose and brand culture. Negative claims or publicity involving us, our culture and values, our products, services and experiences, consumer data, or any of our key employees, endorsers, sponsors or suppliers could seriously damage our reputation and brand image, regardless of whether such claims are accurate. For example, while we require our suppliers of our products to operate their business in compliance with applicable laws and regulations, we do not control their practices. Negative publicity relating to a violation or an alleged violation of policies or laws by such suppliers could damage our brand image and diminish consumer trust in our brand. Further, our reputation and brand image could be damaged as a result of our support of, association with or lack of support or disapproval of certain social causes, as well as any decisions we make to continue to conduct, or change, certain of our activities in response to such considerations. Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Adverse publicity about regulatory or legal action against us, or by us, could also damage our reputation and brand image, undermine consumer confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. If the reputation, culture or image of any of our brands is tarnished or if we receive negative publicity, then our sales, financial condition and results of operations could be materially and adversely affected.

Our business is affected by seasonality, which could result in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third fiscal quarters. However, the mix of product sales may vary considerably from time to time or in the future as a result of strategic shifts in our business, changes in COVID-19 related cancellations or postponements and seasonal or geographic demand for particular types of footwear, apparel and equipment and in connection with the timing, cancellation or postponement of significant sporting events, such as the NBA Finals, Olympics or the World Cup, among others. In addition, our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including economic conditions, changes in consumer preferences, weather conditions, outbreaks of disease, social or political unrest, availability of import quotas, transportation disruptions and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of additional factors that are beyond our control, including manufacturing and transportation costs, shifts in product sales mix and geographic sales trends, all of which we expect to continue. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our revenues and profits.

Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. However, lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, and influencing sports and fitness preferences through extensive marketing, we could experience lower sales, excess inventories or lower profit margins, any of which could have an adverse effect on our results of operations and financial condition. In addition, we market our products globally through a diverse spectrum of advertising and promotional programs and campaigns, including social media, mobile applications and online advertising. If we do not successfully market our products or if advertising and promotional costs increase, these factors could have an adverse effect on our business, financial condition and results of operations.

We rely on technical innovation and high-quality products to compete in the market for our products.

Technical innovation and quality control in the design and manufacturing processes of footwear, apparel, equipment and other products and services are essential to the commercial success of our products and development of new products. Research and development play a key role in technical innovation. We rely upon specialists in the fields of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields, as well as research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts to develop and test cutting-edge performance products. While we strive to produce products that help to enhance athletic performance and reduce injury and maximize comfort, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems and loss of consumer confidence.

Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.

We establish relationships with professional athletes, sports teams and leagues, as well as other public figures, including artists, designers and influencers, to develop, evaluate and promote our products, as well as establish product authenticity with consumers. However, as competition in our industry has increased, the costs associated with establishing and retaining such sponsorships and other relationships have increased. If we are unable to maintain our current associations with professional athletes, sports teams and leagues, or other public figures, or to do so at a reasonable cost, we could lose the high visibility or on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brands, net revenues, expenses and profitability could be harmed.

Furthermore, if certain endorsers were to stop using our products contrary to their endorsement agreements, our business could be adversely affected. In addition, actions taken or statements made by athletes, teams or leagues, or other endorsers, associated with our products or brand that harm the reputations of those athletes, teams or leagues, or endorsers, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition. In addition, poor or non-performance by our endorsers, a failure to continue to correctly identify promising athletes, public figures or sports organizations, to use and endorse our products and brand or a failure to enter into cost-effective endorsement arrangements with prominent athletes, public figures and sports organizations could adversely affect our brand, sales and profitability.

Failure to accurately forecast consumer demand could lead to excess inventories or inventory shortages, which could result in decreased operating margins, reduced cash flows and harm to our business.

To meet anticipated demand for our products, we purchase products from manufacturers outside of our futures ordering program and in advance of customer orders, which we hold in inventory and resell to customers. There is a risk we may be unable to sell excess products ordered from manufacturers. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have an adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages could delay shipments to customers, negatively impact retailer, distributor and consumer relationships and diminish brand loyalty. The difficulty in forecasting demand also makes it difficult to estimate our future results of operations, financial condition and cash flows from period to period. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income, and we are unlikely to forecast such effects with any certainty in advance.

Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

Our NIKE Direct operations, including our retail stores and digital platforms, have required and will continue to require significant investment. Our NIKE Direct stores have required and will continue to require substantial fixed investment in equipment and leasehold improvements and personnel. We have entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and marketing activities and to integrate with our digital platforms. Because of their unique design and technological elements, locations and size, these stores require substantially more investment than other stores. Due to the high fixed-cost structure associated with our NIKE Direct retail stores, a decline in sales, a shift in consumer behavior away from brick-and-mortar retail, or the closure, temporary or otherwise, or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and employee-related costs.

Many factors unique to retail operations, some of which are beyond our control, pose risks and uncertainties. Risks include, but are not limited to: credit card fraud; mismanagement of existing retail channel partners; and inability to manage costs associated with store construction and operation.

In addition, we have made significant investments in digital technologies and information systems for the digital aspect of our NIKE Direct operations, and our digital offerings will require continued investment in the development and upgrading of our technology platforms. In order to deliver high-quality digital experiences, our digital platforms must be designed effectively and work well with a range of other technologies, systems, networks, and standards that we do not control. We may not be successful in developing platforms that operate effectively with these technologies, systems, networks or standards. A growing portion of consumers access our NIKE Direct digital platforms, but in the event that it is more difficult for consumers to access and use our digital platforms, consumers find that our digital platforms do not effectively meet their needs or expectations or consumers choose not to access or use our digital platforms or use devices that do not offer access to our platforms, the success of our NIKE Direct operations could be adversely impacted. Our competitors may develop, or have already developed, digital experiences, features, content, services or technologies that are similar to ours or that achieve greater acceptance.

We may not realize a satisfactory return on our investment in our NIKE Direct operations and management's attention from our other business opportunities could be diverted, which could have an adverse effect on our business, financial condition or results of operations.

If the technology-based systems that give our consumers the ability to shop or interact with us online do not function effectively, our operating results, as well as our ability to grow our digital commerce business globally or to retain our customer base, could be materially adversely affected.

Many of our consumers shop with us through our digital platforms. Increasingly, consumers are using mobile-based devices and applications to shop online with us and with our competitors, and to do comparison shopping, as well as to engage with us and our competitors through digital services and experiences that are offered on mobile platforms. We are increasingly using social media and proprietary mobile applications to interact with our consumers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, secure, user-friendly digital commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers or any failure to provide attractive digital experiences to our customers could place us at a competitive disadvantage, result in the loss of digital commerce and other sales, harm our reputation with consumers, have a material adverse impact on the growth of our digital commerce business globally and have a material adverse impact on our business and results of operations. In addition, as use of our digital platforms continues to grow, we will need an increasing amount of technical infrastructure to continue to satisfy our consumers' needs. If we fail to continue to effectively scale and adapt our digital platforms to accommodate increased consumer demand, our business may be subject to interruptions, delays or failures and consumer demand for our products and digital experiences could decline.

Risks specific to our digital commerce business also include diversion of sales from our and our retailers' brick and mortar stores, difficulty in recreating the in-store experience through direct channels and liability for online content. Our failure to successfully respond to these risks might adversely affect sales in our digital commerce business, as well as damage our reputation and brands.

We rely significantly on information technology to operate our business, including our supply chain and retail operations, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

We are heavily dependent on Information Technology Systems, across our supply chain, including product design, production, forecasting, ordering, manufacturing, transportation, sales and distribution, as well as for processing financial information for external and internal reporting purposes, retail operations and other business activities. Information Technology Systems are critical to many of our operating activities and our business processes and may be negatively impacted by any service interruption or shutdown. For example, our ability to effectively manage and maintain our inventory and to ship products to customers on a timely basis depends significantly on the reliability of these Information Technology Systems. Over a number of years, we have implemented Information Technology Systems in all of the geographical regions in which we operate. Our work to integrate, secure and enhance these systems and related processes in our global operations is ongoing and NIKE will continue to invest in these efforts. We cannot provide assurance, however, that the measures we take to secure and enhance these systems will be sufficient to protect our Information Technology Systems and prevent cyber-attacks, system failures or data or information loss. The failure of these systems to operate effectively, including as a result of security breaches, viruses, hackers, malware, natural disasters, vendor business interruptions or other causes, failure to properly maintain, protect, repair or upgrade systems, or problems with transitioning to upgraded or replacement systems could cause delays in product fulfillment and reduced efficiency of our operations, could require significant capital investments to remediate the problem which may not be sufficient to cover all eventualities, and may have an adverse effect on our reputation, results of operations and financial condition. In addition, the increased use of employee-owned devices for communications as well as work-from-home arrangements, such as those implemented in response to the COVID-19 pandemic, present additional operational risks to our Information Technology Systems, including, but not limited to, increased risks of cyber-attacks. Further, like other companies in the retail industry, we have in the past experienced, and we expect to continue to experience, cyber-attacks, including phishing, and other attempts to breach, or gain unauthorized access to, our systems. To date, these attacks have not had a material impact on our operations, but we cannot provide assurance that they will not have an impact in the future.

We also use Information Technology Systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. If Information Technology Systems suffer severe damage, disruption or shutdown and our business continuity plans, or those of our vendors, do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, which could result in lost revenues and profits, as well as reputational damage. Furthermore, we depend on Information Technology Systems and personal data collection for digital marketing, digital commerce, consumer engagement and the marketing and use of our digital products and services. We also rely on our ability to engage in electronic communications throughout the world between and among our employees as well as with other third parties, including customers, suppliers, vendors and consumers. Any interruption in Information Technology Systems may impede our ability to engage in the digital space and result in lost revenues, damage to our reputation, and loss of users.

We are subject to the risk our licensees may not generate expected sales or maintain the value of our brands.

We currently license, and expect to continue licensing, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. If our licensees fail to successfully market and sell licensed products, or fail to obtain sufficient capital or effectively manage their business operations, customer relationships, labor relationships, supplier relationships or credit risks, it could adversely affect our revenues, both directly from reduced royalties received and indirectly from reduced sales of our other products.

We also rely on our licensees to help preserve the value of our brands. Although we attempt to protect our brands through approval rights over the design, production processes, quality, packaging, merchandising, distribution, advertising and promotion of our licensed products, we cannot completely control the use of our licensed brands by our licensees. The misuse of a brand by or negative publicity involving a licensee could have a material adverse effect on that brand and on us.

Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk and impair our ability to sell products.

The athletic footwear, apparel and equipment retail markets in some countries are dominated by a few large athletic footwear, apparel and equipment retailers with many stores and accelerating digital commerce capabilities. The market shares of these retailers may increase through acquisitions and construction of additional stores and investments in digital capacity, and as a result of attrition as struggling retailers exit the market. Consolidation of our retailers will concentrate our credit risk with a smaller set of retailers, any of whom may experience declining sales or a shortage of liquidity, including as a result of the COVID-19 pandemic. In addition, increasing market share concentration among a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our products, we may be unable to find sufficient retail outlets for our products to sustain the same level of sales and revenues.

If one or more of our counterparty financial institutions default on their obligations to us or fail, we may incur significant losses.

As part of our hedging activities, we enter into transactions involving derivative financial instruments, which may include forward contracts, commodity futures contracts, option contracts, collars and swaps with various financial institutions. In addition, we have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the United States and abroad. As a result, we are exposed to the risk of default by or failure of counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default, or our assets deposited or held in accounts with such counterparty, may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

We rely on a concentrated source base of contract manufacturers to supply a significant portion of our footwear products.

As of May 31, 2022, we were supplied by 120 finished goods footwear contract factories located in 11 countries. We rely upon contract manufacturers, which we do not own or operate, to manufacture all of the footwear products we sell. For fiscal 2022, four footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 58% of NIKE Brand footwear production. Our ability to meet our customers' needs depends on our ability to maintain a steady supply of products from our contract manufacturers. If one or more of our significant suppliers were to sever their relationship with us or significantly alter the terms of our relationship, including due to changes in applicable trade policies, or be unable to perform, including as a result of the COVID-19 pandemic, we may not be able to obtain replacement products in a timely manner, which could have a material adverse effect on our business operations, sales, financial condition or results of operations. Additionally, if any of our primary footwear contract manufacturers fail to make timely shipments, do not meet our quality standards or otherwise fail to deliver us product in accordance with our plans, there could be a material adverse effect on our results of operations.

Certain of our footwear contract manufacturers are highly specialized and only produce a specific type of product. Such contract manufacturers may go out of business if consumer preferences or market conditions change such that there is no longer sufficient demand for the types of products they produce. If, in the future, the relevant products are again in demand and the specialized contract manufacturers no longer exist, we may not be able to locate replacement facilities to manufacture certain footwear products in a timely manner or at all, which could have a material adverse effect on our sales, financial condition or results of operations.

The market for prime real estate is competitive.

Our ability to effectively obtain real estate to open new retail stores and otherwise conduct our operations, both domestically and internationally, depends on the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics and other factors. We also must be able to effectively renew our existing real estate leases. In addition, from time to time, we seek to downsize, consolidate, reposition or close some of our real estate locations, which may require modification of an existing lease. Failure to secure adequate new locations or successfully modify leases for existing locations, or failure to effectively manage the profitability of our existing fleet of retail stores, could have an adverse effect on our operating results and financial condition.

Additionally, the economic environment may make it difficult to determine the fair market rent of real estate properties domestically and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents and to renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet our targets or efficiently manage the profitability of our existing fleet of stores, which could have an adverse effect on our operating results and financial condition.

The success of our business depends, in part, on high-quality employees, including key personnel as well as our ability to maintain our workplace culture and values.

Our success depends in part on the continued service of high-quality employees, including key executive officers and personnel. The loss of the services of key individuals, or any negative perception with respect to these individuals, or our workplace culture or values, could harm our business. Our success also depends on our ability to recruit, retain and engage our personnel sufficiently, both to maintain our current business and to execute our strategic initiatives. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel. Changes to our current and future office environments or adoption of a new work model that expects employees to work on-site for a specified number of days with some flexibility to work remotely on other days, may not meet the needs or expectations of our employees or may not be perceived as favorable compared to other companies' policies, which could negatively impact our ability to attract, hire and retain our employees. In addition, shifts in U.S. immigration policy could negatively impact our ability to attract, hire and retain highly skilled employees who are from outside the United States. We also believe that our corporate culture has been a key driver of our success, and we have invested substantial time and resources in building, maintaining and evolving our culture. Any failure to preserve and evolve our culture could negatively affect our future success, including our ability to retain and recruit employees.

Our business operations and financial performance could be adversely affected by changes in our relationship with our workforce or changes to United States or foreign employment regulations.

We have significant exposure to changes in domestic and foreign laws governing our relationships with our workforce, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll taxes, which could have a direct impact on our operating costs. A significant increase in minimum wage or overtime rates in countries where we have workforce could have a significant impact on our operating costs and may require that we relocate those operations or take other steps to mitigate such increases, all of which may cause us to incur additional costs. There is also a risk of potential claims that we have violated laws related to discrimination and harassment, health and safety, wage and hour laws, criminal activity, personal injury and other claims. In addition, if there were a significant increase in the number of members of our workforce who are members of labor organizations or become parties to collective bargaining agreements, we could be vulnerable to a strike, work stoppage or other labor action, which could have an adverse effect on our business.

Risks Related to Operating a Global Business

Our international operations involve inherent risks which could result in harm to our business.

Virtually all of our athletic footwear and apparel is manufactured outside of the United States, and the majority of our products are sold outside of the United States. Accordingly, we are subject to the risks generally associated with global trade and doing business abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political tensions, unrest, disruptions or delays in cross-border shipments and changes in economic conditions in countries in which our products are manufactured or where we sell products. Changes in the U.S. government's import and export policies, including trade restrictions, sanctions and countersanctions, increased tariffs or quotas, embargoes, safeguards or customs restrictions, could require us to change the way we conduct business and adversely affect our results of operations.

In addition, disease outbreaks, including the recent COVID-19 pandemic, terrorist acts and military conflict have increased the risks of doing business abroad. These factors, among others, could affect our ability to manufacture products or procure materials, or our costs for manufacturing and procuring materials, our ability to import products, our ability to sell products in international markets and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be adversely affected. In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States and other countries. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, safeguard measures, anti-dumping duties, cargo restrictions to prevent terrorism, restrictions on the transfer of currency, climate change legislation, product safety regulations or other charges or restrictions, any of which could have an adverse effect on our results of operations and financial condition.

Furthermore, we are subject to the U.S. Foreign Corrupt Practices Act as well as the anti-corruption laws of other countries in which we operate. Although we implement policies and procedures designed to promote compliance with these laws, our employees, independent contractors, contract manufacturers, suppliers and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation could result in sanctions or other penalties and have an adverse effect on our business, reputation and operating results.

Our products are subject to risks associated with overseas sourcing, manufacturing and financing.

The principal materials used in our footwear products — natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and natural fiber textiles and polyurethane films — are locally available to manufacturers. The principal materials used in our apparel products — natural and synthetic fabrics, yarns and threads (both virgin and recycled), specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow as well as plastic and metal hardware — are also available in countries where our manufacturing takes place. Both our apparel and footwear products are dependent upon the ability of our contract manufacturers to locate, train, employ and retain adequate personnel. NIKE contract manufacturers and materials suppliers buy raw materials and are subject to wage rates and other labor standards that are oftentimes regulated by the governments of the countries in which our products are manufactured.

There could be a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption or heightened competition for such materials, our contract manufacturers might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price or at all. Further, our contract manufacturers have experienced and may continue to experience in the future, unexpected closures, unexpected increases in work wages or other changes in labor standards, whether government mandated or otherwise, and increases in compliance costs due to governmental regulation concerning certain metals, fabrics or raw materials used in the manufacturing of our products. In addition, we cannot be certain that manufacturers that we do not contract and that we refer to as "unaffiliated manufacturers" will be able to fill our orders in a timely manner. If we experience significant increases in demand, or reductions in the availability of materials, or need to replace an existing contract manufacturer or materials supplier, there can be no assurance additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms acceptable to us, or at all, or that any contract manufacturer, unaffiliated manufacturer, or any materials supplier would allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing capacity or sources of materials, we may encounter delays in production and added costs as a result of the time it takes to train suppliers and manufacturers in our methods, products, quality control standards and labor, health and safety standards. Any delays, interruption or increased costs in labor or wages, in the supply of materials or in the manufacturing of our products could have an adverse effect on our ability to meet retail customer and consumer demand for our products and result in lower revenues and net income both in the short- and long-term.

Because contract manufacturers make a majority of our products outside of our principal sales markets, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, container shortages, labor shortages, including work stoppages or port strikes, infrastructure and port congestion or other factors, and costs and delays associated with consolidating or transitioning between manufacturers, have adversely impacted, and could in the future adversely impact the availability of our products and, in turn, our financial performance. In addition, delays in the shipment or delivery of our products, manufacturing delays or unexpected demand for our products have required us, and may in the future require us to use faster, but more expensive, transportation methods such as air freight, which could adversely affect our profit margins. The cost of oil is a significant component in manufacturing and transportation costs, so increases in the price of petroleum products can adversely affect our profit margins. Changes in U.S. trade policies, including modifications to import tariffs and existing trade policies and agreements, have also had, and could continue to have a significant impact on our activities in foreign jurisdictions, and could adversely affect our reputation or results of operations.

Our success depends on our global distribution facilities.

We distribute our products to customers directly from the factory and through distribution centers located throughout the world. Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies and growth, particularly in emerging markets, depends on the proper operation of our distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties (including those involved in shipping product to and from our distribution facilities). Our distribution facilities have in the past and could be interrupted by information technology problems, disasters such as earthquakes or fires or outbreaks of disease or government actions taken to mitigate their spread. Any significant failure in our distribution facilities could result in an adverse effect on our business. We maintain business interruption insurance, but it may not adequately protect us from adverse effects caused by significant disruptions in our distribution facilities.

Legal, Regulatory, and Compliance Risks

We are subject to a complex array of laws and regulations and litigation and other legal and regulatory proceedings, which could have an adverse effect on our business, financial condition and results of operations.

As a multinational corporation with operations and distribution channels throughout the world, we are subject to and must comply with extensive laws and regulations in the United States and other jurisdictions in which we have operations and distribution channels. If we or our employees, agents, suppliers, and other partners fail to comply with any of these laws or regulations, such failure could subject us to fines, sanctions or other penalties that could negatively affect our reputation, business, financial condition and results of operations. Furthermore, laws, regulations and policies and the interpretation of such, can conflict among jurisdictions and compliance in one jurisdiction may result in legal or reputational risks in another jurisdiction. We are involved in various types of claims, lawsuits, regulatory proceedings and government investigations relating to our business, our products and the actions of our employees and representatives, including contractual and employment relationships, product liability, antitrust, trademark rights and a variety of other matters. It is not possible to predict with certainty the outcome of any such legal or regulatory proceedings or investigations, and we could in the future incur judgments, fines or penalties, or enter into settlements of lawsuits and claims that could have a material adverse effect on our business, financial condition and results of operations and negatively impact our reputation. The global nature of our business means legal and compliance risks, such as anti-bribery, anti-corruption, fraud, trade, environmental, competition, privacy and other regulatory matters, will continue to exist and additional legal proceedings and other contingencies have and will continue to arise from time to time, which could adversely affect us. In addition, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations, may result in significant unanticipated legal and reputational risks. Moreover, the regulation of certain transactions we engage in, including those involving non-fungible tokens ("NFTs") and cryptocurrencies, remains in an early stage and subject to significant uncertainty. As a result, we are required to exercise our judgment as to whether or how certain laws or regulations apply, or may in the future apply, and it is possible that legislators, regulators and courts may disagree with our conclusions. Any current or future legal or regulatory proceedings could divert management's attention from our operations and result in substantial legal fees.

Changes to U.S. or other countries' trade policies and tariff and import/export regulations or our failure to comply with such regulations may have a material adverse effect on our reputation, business, financial condition and results of operations.

Changes in U.S. or international social, political, regulatory and economic conditions could impact our business, reputation, financial condition and results of operations. In particular, political and economic instability, geopolitical conflicts, political unrest, civil strife, terrorist activity, acts of war, public corruption, expropriation, nationalism and other economic or political uncertainties in the United States or internationally could interrupt and negatively affect the sale of our products or other business operations. Any negative sentiment toward the United States as a result of any such changes could also adversely affect our business.

In addition, changes in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business could adversely affect our business. U.S. presidential administrations have instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business. It may be time-consuming and expensive for us to alter our business operations in order to adapt to or comply with any such changes.

Changes or proposed changes in U.S. or other countries' trade policies may result in restrictions and economic disincentives on international trade. Tariffs and other changes in U.S. trade policy have in the past and could in the future trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing retaliatory measures on certain U.S. goods. Further, any emerging protectionist or nationalist trends either in the United States or in other countries could affect the trade environment. The Company, similar to many other multinational corporations, does a significant amount of business that would be impacted by changes to the trade policies of the United States and foreign countries (including governmental action related to tariffs, international trade agreements, or economic sanctions). Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof or the economy of another country in which we conduct operations, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations.

Failure to adequately protect or enforce our intellectual property rights could adversely affect our business.

We periodically discover counterfeit reproductions of our products or products that otherwise infringe our intellectual property rights. If we are unsuccessful in enforcing our intellectual property rights, continued sales of these products could adversely affect our sales and our brand and could result in a shift of consumer preference away from our products.

The actions we take to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others. We also may be unable to prevent others from seeking to block sales of our products as violations of proprietary rights.

We may be subject to liability if third parties successfully claim we infringe their intellectual property rights. Defending infringement claims could be expensive and time-consuming and might result in our entering into costly license agreements. We also may be subject to significant damages or injunctions against development, manufacturing, use, importation and/or sale of certain products.

We take various actions to prevent the unauthorized use and/or disclosure of our confidential information and intellectual property rights. These actions include contractual measures such as entering into non-disclosure and non-compete agreements and agreements relating to our collaborations with third parties and providing confidential information awareness training. Our controls and efforts to prevent unauthorized use and/or disclosure of confidential information and intellectual property rights might not always be effective. For example, confidential information related to business strategy, innovations, new technologies, mergers and acquisitions, unpublished financial results or personal data could be prematurely, inadvertently, or improperly used and/or disclosed, resulting in a loss of reputation, loss of intellectual property rights, a decline in our stock price and/or a negative impact on our market position, and could lead to damages, fines, penalties or injunctions. In addition, new products we offer, such as NFTs, may raise various novel intellectual property law considerations, including adequacy and scope of assignment, licensing, transfer, copyright and other right-of-use issues.

In addition, the laws of certain countries may not protect or allow enforcement of intellectual property rights to the same extent as the laws of the United States. We may face significant expenses and liability in connection with the protection of our intellectual property rights, including outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

We are subject to data security and privacy risks that could negatively affect our results, operations or reputation.

In addition to our own sensitive and proprietary business information, we handle transactional and personal information about our wholesale customers and consumers and users of our digital experiences, which include online distribution channels and product engagement, adaptive products and personal fitness applications. Hackers and data thieves are increasingly sophisticated and operate social engineering, such as phishing, and large-scale, complex automated attacks that can evade detection for long periods of time. Any breach of our or our service providers' networks, or other vendor systems, may result in the loss of confidential business and financial data, misappropriation of our consumers', users' or employees' personal information or a disruption of our business. Any of these outcomes could have a material adverse effect on our business, including unwanted media attention, impairment of our consumer and customer relationships, damage to our reputation; resulting in lost sales and consumers, fines, lawsuits, or significant legal and remediation expenses. We also may need to expend significant resources to protect against, respond to and/or redress problems caused by any breach.

In addition, we must comply with increasingly complex and rigorous, and sometimes conflicting, regulatory standards enacted to protect business and personal data in the United States, Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation (the “GDPR”), which became effective on May 25, 2018; five states in the United States (California, Virginia, Colorado, Utah, and Connecticut) passed data privacy laws in 2020 and 2021; China enacted the Data Security Law and Personal Information Protection Law, which became effective on September 1, 2021 and November 1, 2021, respectively, and additional jurisdictions have adopted or are considering proposing or adopting similar regulations. These laws impose additional obligations on companies regarding the handling of personal data and provide certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws and regulations (including implementation of the privacy and process enhancements called for under laws in the European Union, United States and China) can be costly and time consuming, and any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, imposition of fines by governmental authorities and damage to our reputation and credibility and could have a negative impact on revenues and profits.

We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate.

We earn a substantial portion of our income in foreign countries and, as such, we are subject to the tax laws in the United States and numerous foreign jurisdictions. Current economic and political conditions make tax laws and regulations, or their interpretation and application, in any jurisdiction subject to significant change.

Proposals to reform U.S. and foreign tax laws could significantly impact how U.S. multinational corporations are taxed on foreign earnings and could increase the U.S. corporate tax rate. Although we cannot predict whether or in what form these proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our effective tax rate, income tax expense and cash flows.

Portions of our operations are subject to a reduced tax rate or are under various tax holidays. We also utilize tax rulings and other agreements to obtain certainty in treatment of certain tax matters. These holidays expire from time to time and may be extended when certain conditions are met, or terminated if certain conditions are not met. The impact of any changes in conditions would be the loss of certainty in treatment thus potentially impacting our effective income tax rate. For example, in January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to prior periods, and the Company's income taxes related to prior periods in the Netherlands could increase.

We are also subject to the examination of our tax returns by the United States Internal Revenue Service (“IRS”) and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for income taxes. Although we believe our tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from our historical income tax provisions and accruals. The results of audits or related disputes could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. For example, we and our subsidiaries are also engaged in a number of intercompany transactions across multiple tax jurisdictions. Although we believe we have clearly reflected the economics of these transactions and the proper local transfer pricing documentation is in place, tax authorities may propose and sustain adjustments that could result in changes that may impact our mix of earnings in countries with differing statutory tax rates.

Failure of our contractors or our licensees' contractors to comply with our code of conduct, local laws and other standards could harm our business.

We have license agreements that permit independent parties to manufacture or contract for the manufacture of products using our intellectual property. We require the contractors that directly manufacture our products and our licensees that make products using our intellectual property (including, indirectly, their contract manufacturers) to comply with a code of conduct and other environmental, human rights, health and safety standards for the benefit of workers. We also require our contract manufacturers and the contractors of our licensees to comply with applicable standards for product safety. Notwithstanding their contractual obligations, from time to time contractors may not comply with such standards or applicable local law or our licensees may fail to enforce such standards or applicable local law on their contractors. If one or more of our direct or indirect contractors violates or fails to comply with, or is accused of violating or failing to comply with, such standards and laws, this could harm our reputation or result in a product recall and, as a result, could have an adverse effect on our sales and financial condition. Negative publicity regarding production methods, alleged unethical or illegal practices or workplace or related conditions of any of our suppliers, manufacturers or licensees could adversely affect our brand image and sales, force us to locate alternative suppliers, manufacturers or licenses or result in the imposition of additional regulations, including new or additional quotas, tariffs, sanctions, product safety regulations or other regulatory measures, by governmental authorities.

Risks Related to Our Securities, Investments and Liquidity

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in technology, business infrastructure, new businesses or capabilities, product offering and manufacturing innovation and expansion of existing businesses, such as our NIKE Direct operations, which require substantial cash investments and management attention. We believe cost-effective investments are essential to business growth and profitability; however, significant investments are subject to typical risks and uncertainties inherent in developing a new business or expanding an existing business. The failure of any significant investment to provide expected returns or profitability could have a material adverse effect on our financial results and divert management attention from more profitable business operations. See also "*Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties*."

The sale of a large number of shares of common stock by our principal stockholder could depress the market price of our common stock.

As of June 30, 2022, Swoosh, LLC beneficially owned approximately 77% of our Class A Common Stock. If, on June 30, 2022, all of these shares were converted into Class B Common Stock, the commensurate ownership percentage of our Class B Common Stock would be approximately 16%. The shares are available for resale, subject to the requirements of the U.S. securities laws and the terms of the limited liability company agreement governing Swoosh, LLC. The sale or prospect of a sale of a substantial number of these shares could have an adverse effect on the market price of our common stock. Swoosh, LLC was formed by Philip H. Knight, our Chairman Emeritus, to hold the majority of his shares of Class A Common Stock. Mr. Knight does not have voting rights with respect to Swoosh, LLC, although Travis Knight, his son and a NIKE director, has a significant role in the management of the Class A Common Stock owned by Swoosh, LLC.

Changes in our credit ratings or macroeconomic conditions may affect our liquidity, increasing borrowing costs and limiting our financing options.

Our long-term debt is currently rated Investment Grade by Standard & Poor's and Moody's Investors Service. If our credit ratings are lowered, borrowing costs for our existing facilities or for future long-term debt or short-term credit facilities may increase and our financing options, including our access to credit or capital markets, could be adversely affected. We may also be subject to restrictive covenants that would reduce our flexibility to, among other things, incur additional indebtedness, make restricted payments, pledge assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Failure to comply with such covenants could result in a default, and as a result, the commitments of our lenders under our credit agreements may be terminated and the maturity of amounts owed may be accelerated. In addition, macroeconomic conditions, such as increased volatility or disruption in the credit markets, could adversely affect our ability to refinance existing debt.

If our internal controls are ineffective, our operating results could be adversely affected.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

If our estimates or judgments relating to our critical accounting estimates prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenues and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory reserves, contingent payments under endorsement contracts, accounting for property, plant and equipment and definite-lived assets, hedge accounting for derivatives, income taxes and other contingencies. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class B Common Stock.

Anti-takeover provisions may impair an acquisition of the Company or reduce the price of our common stock.

There are provisions within our articles of incorporation and Oregon law intended to protect shareholder interests by providing the Board of Directors a means to attempt to deny coercive takeover attempts or to negotiate with a potential acquirer in order to obtain more favorable terms. Such provisions include a control share acquisition statute, a freeze-out statute, two classes of stock that vote separately on certain issues, and the fact that holders of Class A Common Stock elect three-quarters of the Board of Directors rounded down to the next whole number. However, such provisions could discourage, delay or prevent an unsolicited merger, acquisition or other change in control of our company that some shareholders might believe to be in their best interests or in which shareholders might receive a premium for their common stock over the prevailing market price. These provisions could also discourage proxy contests for control of the Company.

We may fail to meet market expectations, which could cause the price of our stock to decline.

Our Class B Common Stock is traded publicly, and at any given time various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as analysts' opinions of our future performance, which may, in part, be based upon any guidance we have provided. Analysts' estimates are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has been brought against NIKE and other companies following a decline in the market price of their securities. If our stock price is volatile for any reason, we may become involved in this type of litigation in the future. Any litigation could result in reputational damage, substantial costs and a diversion of management's attention and resources needed to successfully run our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following is a summary of principal properties owned or leased by NIKE:

The NIKE World Campus, owned by NIKE and located near Beaverton, Oregon, USA, is an approximately 400-acre site consisting of over 40 buildings which, together with adjacent leased properties, functions as our world headquarters and is occupied by approximately 11,200 employees engaged in management, research, design, development, marketing, finance and other administrative functions serving nearly all of our segments. We lease a similar, but smaller, administrative facility in Hilversum, the Netherlands, which serves as the headquarters for our Europe, Middle East & Africa geography and management of certain brand functions for our non-U.S. operations. We also lease an office complex in Shanghai, China, our headquarters for our Greater China geography, occupied by employees focused on implementing our wholesale, NIKE Direct and merchandising strategies in the region, among other functions.

In the United States, NIKE has eight significant distribution centers. Five are located in or near Memphis, Tennessee, two of which are owned and three of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. One distribution center for Converse is located in Ontario, California, which is leased. NIKE has a number of distribution facilities outside the United States, some of which are leased and operated by third-party logistics providers. The most significant distribution facilities outside the United States are located in Laakdal, Belgium; Taicang, China; Tomisato, Japan and Icheon, Korea, all of which we own, as well as in Suzhou, China, which is leased and operated by a third-party logistics provider.

Air Manufacturing Innovation manufactures cushioning components used in footwear at NIKE-owned and leased facilities located near Beaverton, Oregon, and in Dong Nai Province, Vietnam, as well as at NIKE-owned facilities in St. Charles, Missouri.

Aside from the principal properties described above, we lease many offices worldwide for sales and administrative purposes. We lease approximately 1,041 retail stores worldwide, which primarily consist of factory stores. See "United States Market" and "International Markets" for additional information regarding our retail stores. Our leases expire at various dates through the fiscal year 2043.

ITEM 3. LEGAL PROCEEDINGS

We do not believe there are any material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject. Refer to Note 18 — Commitments and Contingencies in the accompanying Notes to the Consolidated Financial Statements for further information.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NIKE's Class B Common Stock is listed on the New York Stock Exchange and trades under the symbol NKE. At July 8, 2022, there were 22,214 holders of record of NIKE's Class B Common Stock and 15 holders of record of NIKE's Class A Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class A Common Stock is not publicly traded, but each share is convertible upon request of the holder into one share of Class B Common Stock. Refer to our Consolidated Statements of Shareholders' Equity for dividends declared on the Class A and Class B Common Stock.

In June 2018, the Board of Directors approved a four-year, $15 billion share repurchase program. As of May 31, 2022, the Company had repurchased a total of 77.4 million shares at an average price of $111.98 per share for a total approximate cost of $8.7 billion under this program.

In June 2022, the Board of Directors authorized a new four-year, $18 billion program to repurchase shares of the Company's Class B common stock. The Company's new program will replace the current $15 billion share repurchase program, which will be terminated in fiscal 2023. Repurchases under the Company's new program will be made in open market or privately negotiated transactions in compliance with the Securities and Exchange Commission Rule 10b-18, subject to market conditions, applicable legal requirements and other relevant factors. The new share repurchase program does not obligate the Company to acquire any particular amount of common stock, and it may be suspended at any time at the Company's discretion.

All share repurchases were made under NIKE's publicly announced program, and there are no other programs under which the Company repurchases shares. The following table presents a summary of share repurchases made during the quarter ended May 31, 2022:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (IN MILLIONS)
March 1 — March 31, 2022	3,729,125	$ 129.76	$ 6,915
April 1 — April 30, 2022	2,645,732	$ 129.85	$ 6,571
May 1 — May 31, 2022	2,078,150	$ 112.74	$ 6,337
	8,453,007	**$ 125.61**	

PERFORMANCE GRAPH

The following graph demonstrates a five-year comparison of cumulative total returns for NIKE's Class B Common Stock; the Standard & Poor's 500 Stock Index; the Dow Jones U.S. Footwear Index; and the Standard & Poor's Apparel, Accessories & Luxury Goods Index. The graph assumes an investment of $100 on May 31, 2017, in each of the indices and our Class B Common Stock. Each of the indices assumes that all dividends were reinvested on the day of issuance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG NIKE, INC.; S&P 500 INDEX; THE DOW JONES U.S. FOOTWEAR INDEX; AND S&P APPAREL, ACCESSORIES & LUXURY GOODS INDEX

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The Dow Jones U.S. Footwear Index consists of NIKE, Crocs Inc., Deckers Outdoor Corporation and Skechers U.S.A., Inc. Because NIKE is part of the Dow Jones U.S. Footwear Index, the price and returns of NIKE stock have a substantial effect on this index. The Standard & Poor's Apparel, Accessories & Luxury Goods Index consists of PVH Corporation, Ralph Lauren Corporation, Tapestry, Inc., Under Armour, Inc. and V.F. Corporation. The Dow Jones U.S. Footwear Index and the Standard & Poor's Apparel, Accessories & Luxury Goods Index include companies in two major lines of business in which the Company competes. The indices do not encompass all of the Company's competitors, nor all product categories and lines of business in which the Company is engaged.

The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make or endorse any predictions as to future stock performance.

The performance graph above is being furnished solely to accompany this Report pursuant to Item 201(e) of Regulation S-K, is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NIKE designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services worldwide. We are the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE Direct operations, which is comprised of both NIKE-owned retail stores and sales through our digital platforms (also referred to as "NIKE Brand Digital"), to retail accounts and to a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Our goal is to deliver value to our shareholders by building a profitable global portfolio of branded footwear, apparel, equipment and accessories businesses. Our strategy is to achieve long-term revenue growth by creating innovative, “must-have” products, building deep personal consumer connections with our brands and delivering compelling consumer experiences through digital platforms and at retail.

Through the Consumer Direct Acceleration, we are focusing on creating the marketplace of the future through more premium, consistent and seamless consumer experiences, leading with digital and our owned stores, as well as select wholesale partners that share our marketplace vision. Over the last several years, as we have executed against the Consumer Direct Acceleration, we have grown our NIKE Direct business to be approximately 42% of total NIKE Brand revenues for fiscal 2022, and we have reduced the number of wholesale accounts globally. Additionally, we have aligned our product creation and category organizations around a new consumer construct focused on Men’s, Women’s and Kids’ and continue to invest in data and analytics, demand sensing, insight gathering, inventory management and other areas to create an end-to-end technology foundation, which we expect will further accelerate our digital transformation. We believe this unified approach will accelerate growth and unlock more efficiency for our business, while driving speed and responsiveness as we serve consumers globally.

During fiscal 2021, we substantially completed a series of leadership and operating model changes to streamline and speed up the strategic execution of the Consumer Direct Acceleration. These changes resulted in a net reduction of our global workforce and during fiscal 2021, we incurred pre-tax charges of $294 million, which relate to employee termination costs and, to a lesser extent, stock-based compensation expense. For fiscal 2022, we recognized an immaterial amount of related employee termination costs and, to a lesser extent, stock-based compensation expense. We expect future annual wage-related savings will be reinvested to execute against this next phase of our strategy. For more information related to our organizational realignment and related costs, see Note 21 — Restructuring within the accompanying Notes to the Consolidated Financial Statements.

COVID-19 AND MARKET DYNAMICS UPDATE

The COVID-19 pandemic and its impacts on the global supply chain created volatility in our fiscal 2022 business results and operations globally. Despite these challenges, we achieved record Revenues for fiscal 2022, which increased 5% compared to the prior fiscal year with gross margin expansion of 120 basis points. Our NIKE Direct business continued its momentum, growing 14% and 15% on a reported and currency-neutral basis, respectively, led by North America, APLA and EMEA, partially offset by declines in Greater China due to a COVID-19 resurgence in the third and fourth quarters of fiscal 2022 as well as marketplace dynamics. During fiscal 2022, nearly all of our owned stores remained open across North America, EMEA and APLA. In Greater China however, due to a COVID-19 resurgence, we experienced a higher level of temporary store closures, with some operating on reduced hours, as well as lower physical traffic compared to pre-pandemic levels.

During the first quarter of fiscal 2022, the majority of NIKE Brand and Converse contract manufacturers in Vietnam and Indonesia were subject to government mandated shutdowns due to COVID-19. As a result of these closures, we lost approximately three months of production, impacting available product supply throughout fiscal 2022. Globally, nearly all of our supplier base is currently operational without restrictions and with factory production exceeding pre-closure production levels. In addition, our supply of available inventory continued to be impacted in the fourth quarter of fiscal 2022 as extended inventory transit times drove elevated levels of in-transit inventory. These supply chain impacts and a COVID-19 resurgence in Greater China, combined with other factors, caused Inventories to grow to $8.4 billion, an increase of 23% compared to fiscal 2021.

We also experienced elevated transportation, logistics and fulfillment costs as a result of this dynamic environment, which partially offset gross margin expansion in fiscal 2022.

Inventory transit times as well as logistics and fulfillment costs are expected to remain elevated. We also expect product costs to remain elevated due to higher input costs. In the first quarter of fiscal 2023, we expect gross margin could be negatively impacted by increased promotional activity to sell seasonal product arriving late due to the combination of temporary factory closures at the beginning of fiscal 2022 and continued elevated transit times. To mitigate the impact across our business, our teams are continuing to leverage our operational playbook and taking actions where we can, including balancing inventory across our geographies, pricing actions and employing a seasonless approach to products. Despite these short-term dynamics, we believe our Consumer Direct Acceleration strategy continues to drive our business towards our long-term financial goals.

During fiscal 2022, we continued to invest in our digital transformation and brand campaigns as the world returned to sport, and we expect to maintain our multi-year investment plans in order to transform our business of the future.

We expect the operating environment could remain volatile in fiscal 2023 as there remains risk that COVID-19 variants may continue to cause disruption to our operations and could have a material adverse impact on future revenue growth as well as overall profitability.

For more information refer to Item 1A. Risk Factors, within Part I, Item 1. Business.

FISCAL 2022 OVERVIEW

In fiscal 2022, NIKE, Inc. achieved record Revenues of $46.7 billion, which increased 5% and 6% on a reported and currency-neutral basis, respectively, driven by higher revenues in EMEA, North America and APLA, partially offset by declines in Greater China. The NIKE Brand, which represents over 90% of NIKE, Inc. Revenues, increased 5% and 6% on a reported and currency-neutral basis, respectively, compared to fiscal 2021. NIKE Direct grew 14% and 15%, on a reported and currency-neutral basis, respectively, driven by an increase of 18% in NIKE Brand Digital, as growth in North America, APLA and EMEA was partially offset by a decline in Greater China. Wholesale revenues declined 1% as declines in North America and Greater China were partially offset by growth in EMEA and APLA. Revenues for Converse increased 6% and 7%, on a reported and currency-neutral basis, respectively, led by double-digit growth in our direct to consumer business, partially offset by lower wholesale revenues.

Income before income taxes remained flat for fiscal 2022, as higher revenues and gross margin expansion were offset by higher selling and administrative expense. NIKE, Inc. gross margin increased 120 basis points, led by margin expansion in our NIKE Direct business, a higher mix of full-price sales and favorable changes in net foreign currency exchange rates, including hedges, partially offset by elevated freight and logistics costs and higher inventory obsolescence reserves primarily recognized in Greater China in the fourth quarter of fiscal 2022. Selling and administrative expense increased due to higher Operating overhead and Demand creation expense. Operating overhead expense increased primarily due to higher strategic technology investments as well as increases in wage-related expenses and NIKE Direct variable costs. This activity was partially offset by higher restructuring-related costs in the prior year related to our organizational realignment. For more information, see Note 21 — Restructuring within the accompanying Notes to the Consolidated Financial Statements. Demand creation expense increased primarily due to normalization of spend against brand campaigns and continued investments in digital marketing to support heightened digital demand. ROIC as of May 31, 2022 was 46.5% compared to 48.8% as of May 31, 2021. ROIC is considered a non-GAAP financial measure, see "Use of Non-GAAP Financial Measures" for further information.

During the fourth quarter of fiscal 2022, we entered into separate definitive agreements to sell our legal entities in Argentina and Uruguay as well as our legal entity in Chile to third-party distributors. The assets and liabilities of these entities will remain classified as held-for-sale on our Consolidated Balance Sheets until the transactions close, which is expected to occur prior to the end of the third quarter of fiscal 2023. For more information related to our planned distributor partnership transition within APLA, see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements. In future quarters, as we shift from a wholesale and direct to consumer operating model to a distributor operating model within these countries, we expect consolidated NIKE, Inc. and APLA revenue growth will be reduced due to differences in commercial terms. However, over time we expect the future operating model to have a favorable impact on our overall profitability as we reduce selling and administrative expenses, as well as lessen exposure to foreign exchange rate volatility.

Economic sanctions imposed on Russia during the fourth quarter of fiscal 2022, impacted our local business and a reduction in the Ruble liquidity affected our ability to manage operational impact and related foreign currency risk. As a result, we deconsolidated our Russian legal entities, the net revenues of which were less than one percent of consolidated net Revenues for fiscal 2021. The deconsolidation of our Russian legal entities resulted in a one-time, pre-tax charge of $96 million recognized within Other (income) expense, net, classified within Corporate. Subsequent to the end of fiscal 2022, we made the decision to leave the Russian marketplace.

While foreign currency markets remain volatile, in part due to geopolitical dynamics which have led to a stronger U.S. Dollar, we continue to see opportunities to drive future growth and profitability. We remain committed to effectively managing our business and mitigating financial market risks to achieve our financial goals over the long-term by executing against the operational strategies outlined above.

For discussion related to the results of operations and changes in financial condition for fiscal 2021 compared to fiscal 2020 refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our fiscal 2021 Form 10-K, which was filed with the United States Securities and Exchange Commission on July 20, 2021.

USE OF NON-GAAP FINANCIAL MEASURES

Throughout this Annual Report on Form 10-K, we discuss non-GAAP financial measures, including references to wholesale equivalent revenues, currency-neutral revenues, Total NIKE Brand earnings before interest and taxes (EBIT) and Total NIKE, Inc. EBIT, as well as EBIT Margin and ROIC, which should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). References to wholesale equivalent revenues are intended to provide context as to the total size of our NIKE Brand market footprint if we had no NIKE Direct operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our NIKE Direct operations, which are charged at prices comparable to those charged to external wholesale customers. Additionally, currency-neutral revenues are calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends, excluding the impact of translation arising from foreign currency exchange rate fluctuations. EBIT is calculated as Net Income before Interest expense (income), net and Income tax expense in the Consolidated Statements of Income. EBIT Margin is calculated as EBIT divided by total NIKE, Inc. Revenues. ROIC represents a performance measure that management believes is useful information in understanding the Company's ability to effectively manage invested capital, see the table below for how the Company calculates this measure.

Management uses these non-GAAP financial measures when evaluating the Company's performance, including when making financial and operating decisions. Additionally, management believes these non-GAAP financial measures provide investors with additional financial information that should be considered when assessing our underlying business performance and trends. However, references to wholesale equivalent revenues, currency-neutral revenues, ROIC, EBIT and EBIT margin should not be considered in isolation or as a substitute for other financial measures calculated and presented in accordance with U.S. GAAP and may not be comparable to similarly titled non-GAAP measures used by other companies.

Our ROIC calculation as of May 31, 2022 and 2021 is as follows:

	FOR THE TRAILING FOUR QUARTERS ENDED	
(Dollars in millions)	MAY 31, 2022	MAY 31, 2021
Numerator		
Net income	$ 6,046	$ 5,727
Add: Interest expense (income), net	205	262
Add: Income tax expense	605	934
Earnings before interest and taxes	6,856	6,923
Income tax adjustment[1]	(624)	(970)
Earnings before interest and after taxes	$ 6,232	$ 5,953
	AVERAGE FOR THE TRAILING FIVE QUARTERS ENDED	
	MAY 31, 2022	**MAY 31, 2021**
Denominator		
Total debt[2]	$ 12,722	$ 12,890
Add: Shareholders' equity	14,425	10,523
Less: Cash and equivalents and Short-term investments	13,748	11,217
Total invested capital	$ 13,399	$ 12,196
RETURN ON INVESTED CAPITAL	**46.5 %**	**48.8 %**

(1) Equals Earnings before interest and taxes multiplied by the effective tax rate as of the respective quarter end.

(2) Total debt includes the following: 1) Current portion of long-term debt, 2) Notes Payable, 3) Current portion of operating lease liabilities, 4) Long-term debt and 5) Operating lease liabilities.

RESULTS OF OPERATIONS

(Dollars in millions, except per share data)	FISCAL 2022	FISCAL 2021	% CHANGE	FISCAL 2020	% CHANGE
Revenues	$ 46,710	$ 44,538	5 %	$ 37,403	19 %
Cost of sales	25,231	24,576	3 %	21,162	16 %
Gross profit	21,479	19,962	8 %	16,241	23 %
Gross margin	*46.0 %*	*44.8 %*		*43.4 %*	
Demand creation expense	3,850	3,114	24 %	3,592	-13 %
Operating overhead expense	10,954	9,911	11 %	9,534	4 %
Total selling and administrative expense	14,804	13,025	14 %	13,126	-1 %
% of revenues	*31.7 %*	*29.2 %*		*35.1 %*	
Interest expense (income), net	205	262	—	89	—
Other (income) expense, net	(181)	14	—	139	—
Income before income taxes	6,651	6,661	0 %	2,887	131 %
Income tax expense	605	934	-35 %	348	168 %
Effective tax rate	*9.1 %*	*14.0 %*		*12.1 %*	
NET INCOME	**$ 6,046**	**$ 5,727**	**6 %**	**$ 2,539**	**126 %**
Diluted earnings per common share	$ 3.75	$ 3.56	5 %	$ 1.60	123 %

CONSOLIDATED OPERATING RESULTS

REVENUES

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES[1]	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES[1]
NIKE, Inc. Revenues:							
NIKE Brand Revenues by:							
Footwear	$ 29,143	$ 28,021	4 %	4 %	$ 23,305	20 %	18 %
Apparel	13,567	12,865	5 %	6 %	10,953	17 %	15 %
Equipment	1,624	1,382	18 %	18 %	1,280	8 %	7 %
Global Brand Divisions[2]	102	25	308 %	302 %	30	-17 %	-17 %
Total NIKE Brand Revenues	**44,436**	**42,293**	**5 %**	**6 %**	**35,568**	**19 %**	**17 %**
Converse	2,346	2,205	6 %	7 %	1,846	19 %	16 %
Corporate[3]	(72)	40	—	—	(11)	—	—
TOTAL NIKE, INC. REVENUES	**$ 46,710**	**$ 44,538**	**5 %**	**6 %**	**$ 37,403**	**19 %**	**17 %**
Supplemental NIKE Brand Revenues Details:							
NIKE Brand Revenues by:							
Sales to Wholesale Customers	$ 25,608	$ 25,898	-1 %	-1 %	$ 23,156	12 %	10 %
Sales through NIKE Direct	18,726	16,370	14 %	15 %	12,382	32 %	30 %
Global Brand Divisions[2]	102	25	308 %	302 %	30	-17 %	-17 %
TOTAL NIKE BRAND REVENUES	**$ 44,436**	**$ 42,293**	**5 %**	**6 %**	**$ 35,568**	**19 %**	**17 %**
NIKE Brand Revenues on a Wholesale Equivalent Basis:[1]							
Sales to Wholesale Customers	$ 25,608	$ 25,898	-1 %	-1 %	$ 23,156	12 %	10 %
Sales from our Wholesale Operations to NIKE Direct Operations	10,543	9,872	7 %	7 %	7,452	32 %	30 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 36,151**	**$ 35,770**	**1 %**	**1 %**	**$ 30,608**	**17 %**	**15 %**
NIKE Brand Wholesale Equivalent Revenues by:[1],[4]							
Men's	$ 18,797	$ 18,391	2 %	3 %	$ 16,430	12 %	10 %
Women's	8,273	8,225	1 %	1 %	6,954	18 %	16 %
NIKE Kids'	4,874	4,882	0 %	0 %	4,199	16 %	14 %
Jordan Brand	5,122	4,780	7 %	7 %	3,687	30 %	27 %
Others[5]	(915)	(508)	-80 %	-79 %	(662)	23 %	24 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 36,151**	**$ 35,770**	**1 %**	**1 %**	**$ 30,608**	**17 %**	**15 %**

(1) *The percent change excluding currency changes and the presentation of wholesale equivalent revenues represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.*

(2) *Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment.*

(3) *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.*

(4) As a result of the Consumer Direct Acceleration strategy, announced in fiscal 2021, the Company is now organized around a new consumer construct of Men's, Women's and Kids'. Beginning in the first quarter of fiscal 2022, unisex products are classified within Men's, and Jordan Brand revenues are separately reported. Certain prior year amounts have been reclassified to conform to fiscal 2022 presentation. These changes had no impact on previously reported consolidated results of operations or shareholders' equity. For additional information about the Consumer Direct Acceleration refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations within the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

(5) Others include products not allocated to Men’s, Women’s, NIKE Kids’ and Jordan Brand, as well as certain adjustments that are not allocated to products designated by consumer.

FISCAL 2022 NIKE BRAND REVENUE HIGHLIGHTS

The following tables present NIKE Brand revenues disaggregated by reportable operating segment, distribution channel and major product line:

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FISCAL 2022 COMPARED TO FISCAL 2021

On a currency-neutral basis, NIKE, Inc. Revenues increased 6% for fiscal 2022, driven by higher revenues in EMEA, North America and APLA, partially offset by lower revenues in Greater China. Higher revenues in EMEA and North America each contributed approximately 3 percentage points to NIKE, Inc. Revenues, and APLA contributed approximately 2 percentage points, while lower revenues in Greater China reduced NIKE, Inc. Revenues by approximately 2 percentage points.

On a currency-neutral basis, NIKE Brand footwear revenues increased 4% for fiscal 2022, driven by growth in NIKE Direct, partially offset by a decline in our wholesale business. Unit sales of footwear decreased 3%, while higher average selling price (ASP) per pair contributed approximately 7 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to higher NIKE Direct ASP, the favorable impact of growth in our NIKE Direct business, higher full-price ASP, net of discounts, on a wholesale equivalent basis, and a higher mix of full-price sales.

Currency-neutral NIKE Brand apparel revenues increased 6% for fiscal 2022, driven primarily by growth in Men's. Unit sales of apparel remained flat, and higher ASP per unit contributed approximately 6 percentage points of apparel revenue growth. Higher ASP per unit was primarily due to higher full-price and NIKE Direct ASPs.

On a reported basis, NIKE Direct revenues represented approximately 42% of our total NIKE Brand revenues for fiscal 2022 compared to 39% for fiscal 2021. NIKE Brand Digital sales were $10.7 billion for fiscal 2022 compared to $9.1 billion for fiscal 2021. On a currency-neutral basis, NIKE Direct revenues increased 15% for fiscal 2022, driven by NIKE Brand Digital sales growth of 18%, comparable store sales growth of 10%, in part due to improved physical retail traffic, and the addition of new stores. Comparable store sales, which exclude NIKE Brand Digital sales, comprises 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. Comparable store sales includes revenues from stores that were temporarily closed during the period as a result of COVID-19. Comparable store sales represents a performance measure that we believe is useful information for management and investors in understanding the performance of our established NIKE-owned in-line and factory stores. Management considers this metric when making financial and operating decisions. The method of calculating comparable store sales varies across the retail industry. As a result, our calculation of this metric may not be comparable to similarly titled measures used by other companies.

On a currency-neutral basis, fiscal 2022 NIKE Brand revenue growth of 6% was primarily driven by increases in Men's and the Jordan Brand, which grew 3% and 7%, respectively.

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GROSS MARGIN

FISCAL 2022 COMPARED TO FISCAL 2021

For fiscal 2022, our consolidated gross profit increased 8% to $21,479 million compared to $19,962 million for fiscal 2021. Gross margin increased 120 basis points to 46.0% for fiscal 2022 compared to 44.8% for fiscal 2021 due to the following:

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**Wholesale equivalent*

The increase in gross margin for fiscal 2022 was primarily due to higher margin in our NIKE Direct business, a higher mix of full-price sales on a wholesale equivalent basis and favorable changes in net foreign currency exchange rates, including hedges. This activity was partially offset by higher product costs on a wholesale equivalent basis, largely due to elevated freight and logistics costs as well as an increase in other costs primarily due to higher inventory obsolescence reserves recognized in Greater China in the fourth quarter of fiscal 2022.

TOTAL SELLING AND ADMINISTRATIVE EXPENSE

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	FISCAL 2020	% CHANGE
Demand creation expense[(1)]	$ 3,850	$ 3,114	24 %	$ 3,592	-13 %
Operating overhead expense	10,954	9,911	11 %	9,534	4 %
Total selling and administrative expense	$ 14,804	$ 13,025	14 %	$ 13,126	-1 %
% of revenues	31.7 %	29.2 %	250 bps	35.1 %	(590) bps

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

FISCAL 2022 COMPARED TO FISCAL 2021

Demand creation expense increased 24% for fiscal 2022, primarily due to higher advertising and marketing spend against brand campaigns as we experienced marketplace closures in the prior year due to COVID-19, as well as continued investments in digital marketing to support heightened digital demand. Changes in foreign currency exchange rates decreased Demand creation expense by approximately 1 percentage point.

Operating overhead expense increased 11% for fiscal 2022, primarily due to higher strategic technology investments and increases in wage-related expenses and NIKE Direct variable costs. This activity was partially offset by higher restructuring-related costs in the prior year related to our organizational realignment. For more information, see Note 21 — Restructuring within the accompanying Notes to the Consolidated Financial Statements. Changes in foreign currency exchange rates had an insignificant impact on Operating overhead expense.

OTHER (INCOME) EXPENSE, NET

(Dollars in millions)	FISCAL 2022	FISCAL 2021	FISCAL 2020
Other (income) expense, net	$ (181)	$ 14	$ 139

Other (income) expense, net comprises foreign currency conversion gains and losses from the remeasurement 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.

FISCAL 2022 COMPARED TO FISCAL 2021

Other (income) expense, net changed from $14 million of other expense, net in fiscal 2021 to $181 million of other income, net in the current year, primarily due to a $219 million net favorable change in foreign currency conversion gains and losses, including hedges, as well as a net favorable impact related to our strategic distributor partnership transition within APLA, partially offset by the one-time charge related to the deconsolidation of our Russian operations.

For more information related to our distributor partnership transition within APLA, see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements.

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 a favorable impact on our Income before income taxes of $132 million for fiscal 2022.

INCOME TAXES

	FISCAL 2022		FISCAL 2021		% CHANGE	FISCAL 2020		% CHANGE
Effective tax rate	9.1	%	14.0	%	(490) bps	12.1	%	190 bps

FISCAL 2022 COMPARED TO FISCAL 2021

Our effective tax rate was 9.1% for fiscal 2022, compared to 14.0% for fiscal 2021, primarily due to a shift in our earnings mix and recognition of a non-cash, one-time benefit related to the onshoring of certain non-U.S. intangible property ownership rights in the fourth quarter of fiscal 2022.

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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands. The Company's NIKE Direct operations are managed within each geographic operating segment. Converse is also a reportable operating segment for the Company and operates predominately in one industry: the design, marketing, licensing and selling of athletic lifestyle sneakers, apparel and accessories.

As part of our centrally managed foreign exchange risk management program, standard foreign currency exchange rates are assigned twice per year to each NIKE Brand entity in our geographic operating segments and Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the use of these standard rates to record non-functional currency product purchases into the entity's functional currency. Differences between assigned standard foreign currency exchange 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.

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The breakdown of Revenues is as follows:

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)
North America	$ 18,353	$ 17,179	7 %	7 %	$ 14,484	19 %	19 %
Europe, Middle East & Africa	12,479	11,456	9 %	12 %	9,347	23 %	17 %
Greater China	7,547	8,290	-9 %	-13 %	6,679	24 %	19 %
Asia Pacific & Latin America(2)	5,955	5,343	11 %	16 %	5,028	6 %	8 %
Global Brand Divisions(3)	102	25	308 %	302 %	30	-17 %	-17 %
TOTAL NIKE BRAND	**44,436**	**42,293**	**5 %**	**6 %**	**35,568**	**19 %**	**17 %**
Converse	2,346	2,205	6 %	7 %	1,846	19 %	16 %
Corporate(4)	(72)	40	—	—	(11)	—	—
TOTAL NIKE, INC. REVENUES	**$ 46,710**	**$ 44,538**	**5 %**	**6 %**	**$ 37,403**	**19 %**	**17 %**

(1) The percent change excluding currency changes represents a non-GAAP financial measure. See "Use of Non-GAAP Financial Measures" for further information.

(2) Refer to Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements for additional information on the transition of our NIKE Brand business in Brazil to a third-party distributor.

(3) Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment.

(4) 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 primary financial measure used by the Company to evaluate performance of individual operating segments is EBIT, which represents Net income before Interest expense (income), net and Income tax expense in the Consolidated Statements of Income. As discussed in Note 17 — Operating Segments and Related Information in the accompanying Notes to the 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)	FISCAL 2022	FISCAL 2021	% CHANGE	FISCAL 2020	% CHANGE
North America	$ 5,114	$ 5,089	0 %	$ 2,899	76 %
Europe, Middle East & Africa	3,293	2,435	35 %	1,541	58 %
Greater China	2,365	3,243	-27 %	2,490	30 %
Asia Pacific & Latin America	1,896	1,530	24 %	1,184	29 %
Global Brand Divisions	(4,262)	(3,656)	-17 %	(3,468)	-5 %
TOTAL NIKE BRAND(1)	**$ 8,406**	**$ 8,641**	**-3 %**	**$ 4,646**	**86 %**
Converse	669	543	23 %	297	83 %
Corporate	(2,219)	(2,261)	2 %	(1,967)	-15 %
TOTAL NIKE, INC. EARNINGS BEFORE INTEREST AND TAXES(1)	**$ 6,856**	**$ 6,923**	**-1 %**	**$ 2,976**	**133 %**
EBIT margin(1)	*14.7 %*	*15.5 %*		*8.0 %*	
Interest expense (income), net	205	262	—	89	—
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 6,651**	**$ 6,661**	**0 %**	**$ 2,887**	**131 %**

(1) Total NIKE Brand EBIT, Total NIKE, Inc. EBIT and EBIT Margin represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.

NORTH AMERICA

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 12,228	$ 11,644	5 %	5 %	$ 9,329	25 %	25 %
Apparel	5,492	5,028	9 %	9 %	4,639	8 %	8 %
Equipment	633	507	25 %	25 %	516	-2 %	-2 %
TOTAL REVENUES	**$ 18,353**	**$ 17,179**	**7 %**	**7 %**	**$ 14,484**	**19 %**	**19 %**
Revenues by:							
Sales to Wholesale Customers	$ 9,621	$ 10,186	-6 %	-6 %	$ 9,371	9 %	9 %
Sales through NIKE Direct	8,732	6,993	25 %	25 %	5,113	37 %	37 %
TOTAL REVENUES	**$ 18,353**	**$ 17,179**	**7 %**	**7 %**	**$ 14,484**	**19 %**	**19 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 5,114**	**$ 5,089**	**0 %**		**$ 2,899**	**76 %**	

FISCAL 2022 COMPARED TO FISCAL 2021

On a currency-neutral basis, North America revenues increased 7%, due primarily to higher revenues in Men's and the Jordan Brand. NIKE Direct revenues increased 25%, driven by strong digital sales growth of 30%, comparable store sales growth of 17% and the addition of new stores.

Footwear revenues increased 5% on a currency-neutral basis, driven by growth in NIKE Direct, partially offset by a decline in our wholesale business. Unit sales of footwear decreased 4%, while higher ASP per pair contributed approximately 9 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to higher NIKE Direct ASP, the favorable impact of growth in our NIKE Direct business and a higher mix of full-price sales.

On a currency-neutral basis, apparel revenues increased 9%, driven primarily by higher revenues in Men's. Unit sales of apparel decreased 2%, while higher ASP per unit contributed approximately 11 percentage points of apparel revenue growth. The increase in ASP per unit was primarily driven by higher full-price and NIKE Direct ASPs as well as a higher mix of full-price sales.

Reported EBIT remained flat as higher revenues were offset by higher selling and administrative expense and gross margin contraction. Gross margin decreased approximately 10 basis points, largely due to higher product and other costs, partially offset by higher margins and the favorable impact of growth in our NIKE Direct business, a higher mix of full-price sales and higher full-price ASP, net of discounts, primarily due to strategic pricing actions. Higher product and other costs were primarily due to increased freight, logistics and warehousing costs. Selling and administrative expense increased due to higher demand creation and operating overhead expense. Demand creation expense increased primarily as a result of higher advertising and marketing expense, as well as higher digital marketing investments. The increase in operating overhead expense reflected higher wage-related costs as well as an increase in NIKE Direct variable costs.

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EUROPE, MIDDLE EAST & AFRICA

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 7,388	$ 6,970	6 %	9 %	$ 5,892	18 %	13 %
Apparel	4,527	3,996	13 %	16 %	3,053	31 %	25 %
Equipment	564	490	15 %	17 %	402	22 %	19 %
TOTAL REVENUES	**$ 12,479**	**$ 11,456**	**9 %**	**12 %**	**$ 9,347**	**23 %**	**17 %**
Revenues by:							
Sales to Wholesale Customers	$ 8,377	$ 7,812	7 %	10 %	$ 6,574	19 %	14 %
Sales through NIKE Direct	4,102	3,644	13 %	15 %	2,773	31 %	25 %
TOTAL REVENUES	**$ 12,479**	**$ 11,456**	**9 %**	**12 %**	**$ 9,347**	**23 %**	**17 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 3,293**	**$ 2,435**	**35 %**		**$ 1,541**	**58 %**	

FISCAL 2022 COMPARED TO FISCAL 2021

On a currency-neutral basis, EMEA revenues for fiscal 2022 grew 12%, due primarily to higher revenues in Men’s, the Jordan Brand and Women's. NIKE Direct revenues increased 15%, primarily due to comparable store sales growth of 30% due to improved physical retail traffic, in part resulting from temporary store closures and safety-related measures in response to COVID-19 in the prior year, as well as digital sales growth of 8%.

Currency-neutral footwear revenues increased 9%, driven by higher revenues in the Jordan Brand and Men's. Unit sales of footwear decreased 1%, while higher ASP per pair contributed approximately 10 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to higher NIKE Direct and full-price ASPs as well as a higher mix of full-price sales.

Currency-neutral apparel revenues increased 16% due primarily to higher revenues in Men's and Women's. Unit sales of apparel increased 9%, while higher ASP per unit contributed approximately 7 percentage points of apparel revenue growth, primarily due to higher full-price and NIKE Direct ASPs.

Reported EBIT increased 35% as gross margin expansion and higher revenues more than offset higher selling and administrative expense. Gross margin increased approximately 570 basis points primarily due to higher NIKE Direct margins, favorable changes in standard foreign currency exchange rates, a higher mix of full-price sales and higher full-price ASP, net of discounts, partially offset by higher product costs. Higher full-price ASP, net of discounts, was largely due to strategic pricing actions, while higher product costs were primarily due to increased freight and logistics costs. Selling and administrative expense increased due to higher demand creation and operating overhead expense. Higher demand creation expense was driven by higher advertising and marketing expense. Higher operating overhead expense was primarily due to increases in wage-related expenses and professional services.

GREATER CHINA

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 5,416	$ 5,748	-6 %	-10 %	$ 4,635	24 %	19 %
Apparel	1,938	2,347	-17 %	-21 %	1,896	24 %	19 %
Equipment	193	195	-1 %	-6 %	148	32 %	26 %
TOTAL REVENUES	**$ 7,547**	**$ 8,290**	**-9 %**	**-13 %**	**$ 6,679**	**24 %**	**19 %**
Revenues by:							
Sales to Wholesale Customers	$ 4,081	$ 4,513	-10 %	-14 %	$ 3,803	19 %	14 %
Sales through NIKE Direct	3,466	3,777	-8 %	-12 %	2,876	31 %	26 %
TOTAL REVENUES	**$ 7,547**	**$ 8,290**	**-9 %**	**-13 %**	**$ 6,679**	**24 %**	**19 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 2,365**	**$ 3,243**	**-27 %**		**$ 2,490**	**30 %**	

FISCAL 2022 COMPARED TO FISCAL 2021

On a currency-neutral basis, Greater China revenues for fiscal 2022 decreased 13%, reflecting impacts from supply chain constraints, government restrictions due to COVID-19 as well as marketplace dynamics. The decrease in revenues was primarily due to lower revenues in Men’s and Women's. NIKE Direct revenues decreased 12% due to digital sales declines of 15% and comparable store sales declines of 14%, in part due to reduced physical retail traffic as a result of government restrictions due to COVID-19 as well as ongoing marketplace dynamics, partially offset by the addition of new stores.

Currency-neutral footwear revenues decreased 10%, driven primarily by lower revenues in Men's and Women's. Unit sales of footwear decreased 7%, while lower ASP per pair reduced footwear revenues by approximately 3 percentage points, driven by lower NIKE Direct and full-price ASPs, reflecting higher discounts.

Currency-neutral apparel revenues decreased 21%, due primarily to lower revenues in Men's and Women's. Unit sales of apparel decreased 15%, while lower ASP per unit reduced apparel revenues by approximately 6 percentage points, primarily due to lower NIKE Direct and full-price ASPs, reflecting higher discounts.

Reported EBIT decreased 27% due to lower revenues, gross margin contraction and higher selling and administrative expense. Gross margin decreased approximately 390 basis points, reflecting impacts from COVID-19 related government restrictions which reduced physical retail traffic and led to higher inventory obsolescence reserves recognized primarily in the fourth quarter of fiscal 2022. The decrease in gross margin was also largely due to higher product costs and lower NIKE Direct margins. This activity was partially offset by favorable changes in standard foreign currency exchange rates. Selling and administrative expense increased due to higher demand creation and operating overhead expense. Growth in demand creation expense was primarily due to higher advertising and marketing expense. Operating overhead expense increased largely due to higher wage-related costs and higher strategic technology investments.

ASIA PACIFIC & LATIN AMERICA

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 4,111	$ 3,659	12 %	17 %	$ 3,449	6 %	8 %
Apparel	1,610	1,494	8 %	12 %	1,365	9 %	10 %
Equipment	234	190	23 %	28 %	214	-11 %	-9 %
TOTAL REVENUES	**$ 5,955**	**$ 5,343**	**11 %**	**16 %**	**$ 5,028**	**6 %**	**8 %**
Revenues by:							
Sales to Wholesale Customers	$ 3,529	$ 3,387	4 %	8 %	$ 3,408	-1 %	2 %
Sales through NIKE Direct	2,426	1,956	24 %	30 %	1,620	21 %	22 %
TOTAL REVENUES	**$ 5,955**	**$ 5,343**	**11 %**	**16 %**	**$ 5,028**	**6 %**	**8 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,896**	**$ 1,530**	**24 %**		**$ 1,184**	**29 %**	

As discussed previously, our NIKE Brand business in Brazil transitioned to a distributor operating model during fiscal 2021. During the fourth quarter of fiscal 2022, we signed separate definitive agreements to sell our legal entities in Argentina and Uruguay as well as our legal entity in Chile to third-party distributors. The assets and liabilities of our legal entities in Argentina, Chile and Uruguay will remain classified as held-for-sale on the Consolidated Balance Sheets until the transactions close, which is expected to occur prior to the end of the third quarter of fiscal 2023. The impacts of closing the Brazil transaction as well as classifying the Argentina, Chile, and Uruguay entities as held-for-sale in fiscal 2020 are included within Corporate and are not reflected in the APLA operating segment results. For more information see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements.

FISCAL 2022 COMPARED TO FISCAL 2021

On a currency-neutral basis, APLA revenues increased 16% for fiscal 2022. The increase was due to higher revenues across nearly all territories, driven by SOCO (which comprises Argentina, Chile and Uruguay), Mexico and Korea, which increased 58%, 35% and 16%, respectively. Revenues increased primarily due to higher revenues in Men’s and Women's. NIKE Direct revenues increased 30%, primarily due to digital sales growth of 51% and comparable store sales growth of 13%, in part due to improved physical retail traffic, partially offset by store closures.

Currency-neutral footwear revenues increased 17% for fiscal 2022 in part due to higher revenues in Women's and Men's. Unit sales of footwear increased 2%, while higher ASP per pair contributed approximately 15 percentage points of footwear revenue growth. Higher ASP per pair was driven by higher NIKE Direct ASP, higher full-price ASP, reflecting lower discounts, higher off-price ASP and a higher mix of full-price sales. Higher ASPs, in part, reflect inflationary conditions in our SOCO territory.

Currency-neutral apparel revenues increased 12% for fiscal 2022 due primarily to higher revenues in Men's. Unit sales of apparel increased 3%, while higher ASP per unit contributed approximately 9 percentage points of apparel revenue growth, driven by higher full-price ASP, reflecting lower discounts, as well as higher NIKE Direct and off-price ASPs. Higher ASPs, in part, reflect inflationary conditions in our SOCO territory.

Reported EBIT increased 24% for fiscal 2022, as higher revenues and gross margin expansion more than offset higher selling and administrative expense. Gross margin increased approximately 400 basis points primarily due to higher margins and the favorable impact of growth in our NIKE Direct business, higher full-price ASP largely due to lower discounts, favorable changes in standard foreign currency exchange rates, lower other costs as well as a higher mix of full-price sales. The decrease in other costs was primarily due to lower warehousing costs. Selling and administrative expense increased due to higher demand creation and operating overhead expense. Higher demand creation expense was primarily due to higher digital marketing investments to support heightened digital demand. The increase in operating overhead expense was primarily due to an increase in NIKE Direct variable expenses as well as higher bad debt expense.

GLOBAL BRAND DIVISIONS

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues	$ 102	$ 25	308 %	302 %	$ 30	-17 %	-17 %
Earnings (Loss) Before Interest and Taxes	$ (4,262)	$ (3,656)	-17 %		$ (3,468)	-5 %	

Global Brand Divisions primarily represent demand creation and operating overhead expense, including product creation and design expenses that are centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology. Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment.

FISCAL 2022 COMPARED TO FISCAL 2021

Global Brand Divisions' loss before interest and taxes increased 17% for fiscal 2022 due to higher total selling and administrative expense, driven by higher operating overhead and demand creation expense. Higher operating overhead expense was primarily due to an increase in strategic technology investments, continued investment in digital capabilities and higher wage-related expenses. Higher demand creation expense was primarily due to higher advertising and marketing expense and higher sports marketing costs.

CONVERSE

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 2,094	$ 1,986	5 %	6 %	$ 1,642	21 %	17 %
Apparel	103	104	-1 %	-3 %	89	17 %	13 %
Equipment	26	29	-10 %	-16 %	25	16 %	14 %
Other(1)	123	86	43 %	42 %	90	-4 %	-1 %
TOTAL REVENUES	**$ 2,346**	**$ 2,205**	**6 %**	**7 %**	**$ 1,846**	**19 %**	**16 %**
Revenues by:							
Sales to Wholesale Customers	$ 1,292	$ 1,353	-5 %	-4 %	$ 1,154	17 %	13 %
Sales through Direct to Consumer	931	766	22 %	22 %	602	27 %	24 %
Other(1)	123	86	43 %	42 %	90	-4 %	-1 %
TOTAL REVENUES	**$ 2,346**	**$ 2,205**	**6 %**	**7 %**	**$ 1,846**	**19 %**	**16 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 669**	**$ 543**	**23 %**		**$ 297**	**83 %**	

(1) Other revenues consist of territories serviced by third-party licensees who pay royalties to Converse for the use of its registered trademarks and other intellectual property rights. We do not own the Converse trademarks in Japan and accordingly do not earn revenues in Japan.

FISCAL 2022 COMPARED TO FISCAL 2021

On a currency-neutral basis, Converse revenues increased 7% for fiscal 2022 due to revenue growth in North America, Western Europe and licensee markets, partially offset by declines in Asia. Direct to consumer revenues increased 22%, led by strong digital demand. Wholesale revenues decreased 4%, primarily due to ongoing marketplace dynamics in China as well as global supply chain constraints. Combined unit sales within the wholesale and direct to consumer channels decreased 6%, while ASP increased 12%, driven by growth in direct to consumer.

Reported EBIT increased 23%, driven by gross margin expansion and higher revenues, partially offset by higher selling and administrative expense. Gross margin increased approximately 360 basis points as higher margins in direct to consumer, growth in licensee revenues, favorable changes in standard foreign currency exchange rates, and higher full-price ASP, net of discounts, were partially offset by higher product costs due to increased freight, duty and logistics costs. Selling and administrative expense increased due to higher demand creation and operating overhead expense. Demand creation expense increased primarily due to higher advertising and marketing expense, while operating overhead increased primarily due to higher professional services costs.

CORPORATE

(Dollars in millions)	FISCAL 2022	FISCAL 2021	% CHANGE	FISCAL 2020	% CHANGE
Revenues	$ (72)	$ 40	—	$ (11)	—
Earnings (Loss) Before Interest and Taxes	$ (2,219)	$ (2,261)	2 %	$ (1,967)	-15 %

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 primarily consists 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 exchange 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 remeasurement of monetary assets and liabilities in non-functional currencies; and certain other foreign currency derivative instruments.

FISCAL 2022 COMPARED TO FISCAL 2021

Corporate's loss before interest and taxes decreased $42 million during fiscal 2022, primarily due to the following:

- a favorable change in net foreign currency gains and losses of $219 million related to the remeasurement 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;
- an unfavorable change of $190 million 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; and
- a favorable change of $13 million largely due to higher restructuring-related costs associated with our organizational realignment in the prior year and, to a lesser extent, a net favorable impact related to our strategic distributor partnership transition within APLA in the current year, partially offset by the one-time charge related to the deconsolidation of our Russian operations and higher administrative and wage-related expenses in fiscal 2022.

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.

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 material to NIKE, Inc. We manage these exposures by taking advantage of natural offsets and currency correlations existing 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 existing 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 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.

Refer to Note 6 — Fair Value Measurements and Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional description of outstanding derivatives at each reported period end.

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:

     a. Certain NIKE entities purchase product from the NTC, a wholly-owned sourcing hub that buys NIKE branded products from 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. NTC sales to a NIKE entity with a different functional currency results in 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 inventory costs 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 14 — Risk Management and Derivatives in the accompanying Notes to the 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 reduces 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 NIKE Brand and Converse revenues associated with European operations 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 entered into contractual agreements which have payments indexed to foreign currencies that create embedded derivative contracts recorded at fair value through Other (income) expense, net. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the 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 remeasurement 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, except for hedges of the embedded derivative components of the product cost exposures and other contractual agreements.

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

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 (loss) within Shareholders' equity. In the translation of our 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 $295 million, a benefit of approximately $893 million and a detriment of approximately $867 million for the years ended May 31, 2022, 2021 and 2020, respectively. The impact of foreign exchange rate fluctuations on the translation of our Income before income taxes was a detriment of approximately $87 million, a benefit of approximately $260 million and a detriment of approximately $212 million for the years ended May 31, 2022, 2021 and 2020, respectively.

Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Management has concluded our Argentina subsidiary within our APLA operating segment is operating in a hyper-inflationary market. As a result, beginning in the second quarter of fiscal 2019, the functional currency of our Argentina subsidiary changed from the local currency to the U.S. Dollar. As of and for the period ended May 31, 2022, this change did not have a material impact on our results of operations or financial condition, and we do not anticipate it will have a material impact in future periods based on current rates.

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 U.S. GAAP. 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 the purchase of U.S. Dollar denominated available-for-sale investments are accounted for as cash flow hedges.

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 favorable impacts of approximately $132 million and $19 million and an unfavorable impact of approximately $91 million on our Income before income taxes for the years ended May 31, 2022, 2021 and 2020, 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 as net investment hedges in accordance with U.S. GAAP. There were no outstanding net investment hedges as of May 31, 2022 and 2021. There were no cash flows from net investment hedge settlements for the years ended May 31, 2022, 2021 and 2020.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITY

Cash provided (used) by operations was an inflow of $5,188 million for fiscal 2022 compared to $6,657 million for fiscal 2021. Net income, adjusted for non-cash items, generated $6,848 million of operating cash inflow for fiscal 2022 compared to $6,612 million for fiscal 2021. The net change in working capital and other assets and liabilities resulted in a decrease to Cash provided (used) by operations of $1,660 million for fiscal 2022, compared to an increase of $45 million for fiscal 2021. The net change in working capital was unfavorably impacted by a $2,183 million increase in Inventories, partially offset by a favorable impact from a $1,102 million decrease in Accounts receivable. These changes were, in part, due to supply chain constraints, which caused higher levels of in-transit inventory and therefore a lower supply of available inventory to meet consumer demand.

Cash provided (used) by investing activities was an outflow of $1,524 million for fiscal 2022, compared to an outflow of $3,800 million for fiscal 2021, primarily driven by the net change in short-term investments. During fiscal 2022, the net change in short-term investments (including sales, maturities and purchases) resulted in a cash outflow of $747 million compared to a cash outflow of $3,276 million in fiscal 2021. Additionally, during fiscal 2022, we continued investing in our infrastructure to support future growth, specifically focused around digital capabilities, our end-to-end technology foundation, our corporate facilities and improvements across our supply chain. In future periods, we expect to make annual capital expenditures of approximately 3% of annual revenues.

Cash provided (used) by financing activities was an outflow of $4,836 million for fiscal 2022 compared to an outflow of $1,459 million for fiscal 2021. This change was driven by our resumption of the share repurchase program in the fourth quarter of fiscal 2021, resulting in $4,014 million of share repurchases during fiscal 2022 compared to $608 million during fiscal 2021.

In fiscal 2022, we purchased 27.3 million shares of NIKE's Class B Common Stock for $3,994 million (an average price of $146.11 per share) under the four-year, $15 billion share repurchase program approved by the Board of Directors in June 2018. As of May 31, 2022, we had repurchased 77.4 million shares at a cost of $8,663 million (an average price of $111.98 per share) under this program. In June 2022, the Board of Directors authorized a new four-year, $18 billion program to repurchase shares of the Company's Class B common stock. The new program will replace the current $15 billion share repurchase program, which will be terminated in fiscal 2023. Repurchases under the new program will be made in open market or privately negotiated transactions in compliance with the Securities and Exchange Commission Rule 10b-18, subject to market conditions, applicable legal requirements and other relevant factors. The new share repurchase program does not obligate the Company to acquire any particular amount of common stock, and it may be suspended at any time at our discretion. We continue to expect funding of share repurchases will come from operating cash flows and excess cash. The timing and the amount of share repurchases will be dictated by our capital needs and stock market conditions.

CAPITAL RESOURCES

On July 23, 2019, we filed a shelf registration statement (the “Shelf”) with the U.S. Securities and Exchange Commission (SEC) which permits us to issue an unlimited amount of debt securities from time to time. The Shelf expires on July 23, 2022, and we plan to file a new shelf registration statement with the SEC in July 2022.

On March 11, 2022, we entered into a 364-day committed credit facility agreement with a syndicate of banks which provides for up to $1 billion of borrowings, with the option to increase borrowings up to $1.5 billion in total with lender approval. The facility matures on March 10, 2023, with an option to extend the maturity date an additional 364 days. This facility replaces the prior $1 billion 364-day credit facility agreement entered into on March 15, 2021, which would have matured on March 14, 2022. Refer to Note 7 — Short-Term Borrowings and Credit Lines for additional information.

On March 11, 2022, we also entered into a five-year committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings, with the option to increase borrowings up to $3 billion in total with lender approval. The facility matures on March 11, 2027, with options to extend the maturity date up to an additional two years. This facility replaces the prior $2 billion five-year credit facility agreement entered into on August 16, 2019, which would have matured on August 16, 2024. Refer to Note 7 — Short-Term Borrowings and Credit Lines for additional information.

We currently have long-term debt ratings of AA- and A1 from Standard and Poor's Corporation and Moody's Investor Services, respectively. As it relates to our committed credit facilities entered into on March 11, 2022, if our long-term debt ratings were to decline, the facility fees and interest rates would increase. Conversely, if our long-term debt ratings were to improve, the facility fees and interest rates would decrease. Changes in our long-term debt ratings would not trigger acceleration of maturity of any then-outstanding borrowings or any future borrowings under the committed credit facilities.

Under these facilities, we have agreed to various covenants. These covenants include limits on our disposal of assets and the amount of debt secured by liens we may incur. In the event we were to have any borrowings outstanding under these facilities, 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 May 31, 2022, 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 $3 billion commercial paper program. As of and for the fiscal year ended May 31, 2022, we did not have any borrowings outstanding under our $3 billion program. As of May 31, 2021, we had no commercial paper outstanding.

We may continue to issue commercial paper or other debt securities depending on general corporate needs.

To date, we have not experienced difficulty accessing the credit markets; however, future volatility in the capital markets may increase costs associated with issuing commercial paper or other debt instruments or affect our ability to access those markets.

As of May 31, 2022, we had cash, cash equivalents and short-term investments totaling $13.0 billion, primarily consisting of commercial paper, corporate notes, deposits held at major banks, money market funds, U.S. government sponsored enterprise obligations, U.S. Treasury 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 May 31, 2022, the weighted-average days to maturity of our cash equivalents and short-term investments portfolio was 113 days.

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.

Our material cash requirements as of May 31, 2022, were as follows:

- Debt Obligations — Refer to Note 7 — Short-Term Borrowings and Credit Lines and Note 8 — Long-Term Debt in the accompanying Notes to the Consolidated Financial Statements for further information.
- Operating Leases — Refer to Note 19 — Leases in the accompanying Notes to the Consolidated Financial Statements for further information.
- Endorsement Contracts — As of May 31, 2022, we had endorsement contract obligations of $7.6 billion, with $1.3 billion payable within 12 months, representing approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, public figure, sport team and league endorsers of our products. Actual payments under some contracts may be higher than these amounts 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 amount of product provided to the endorsers will depend on many factors and the contracts generally do not stipulate a minimum amount of cash to be spent on the product.
- Product Purchase Obligations — As of May 31, 2022, we had product purchase obligations of $6.6 billion, all of which are payable within the next 12 months. Product purchase obligations represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and specify all significant terms. We generally order product at least four to five months in advance of sale based primarily on advanced orders received from external wholesale customers and internal orders from our direct to consumer operations. In some cases, prices are subject to change throughout the production process.
- Other Purchase Obligations — As of May 31, 2022, we had $3.1 billion of other purchase obligations, with $1.7 billion payable within the next 12 months. Other purchase obligations primarily include technology investments, construction, service and marketing commitments, including marketing commitments associated with endorsement contracts, made in the ordinary course of business. The amounts represent the minimum payments required by legally binding contracts and agreements that specify all significant terms, and may include open purchase orders for non-product purchases.

In addition to the above, we have long-term obligations for uncertain tax positions and various post-retirement benefits for which we are not able to reasonably estimate when cash payments will occur. Refer to Note 9 — Income Taxes and Note 13 — Benefit Plans in the accompanying Notes to the Consolidated Financial Statements for further information related to uncertain tax positions and post-retirement benefits, respectively.

As a part of the transition tax related to the Tax Cuts and Jobs Act, as of May 31, 2022, we had $730 million in estimated future cash payments, with $86 million payable within the next 12 months. These amounts represent the transition tax on deemed repatriation of undistributed earnings of foreign subsidiaries, which are reflected net of foreign tax credits we utilized. Refer to Part II, Item 8. Financial Statements and Supplementary Data, Note 9 - Income Taxes, in our fiscal 2020 Form 10-K, which was filed with the United States Securities and Exchange Commission on July 24, 2020, for additional information.

Refer to Note 18 — Commitments and Contingencies in the accompanying Notes to the Consolidated Financial Statements for further information related to our off-balance sheet arrangements, bank guarantees and letters of credit.

OFF-BALANCE SHEET ARRANGEMENTS

In connection with various contracts and agreements, we routinely provide indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where we are acting as the guarantor. Currently, we have several such agreements in place. Based on our historical experience and the estimated probability of future loss, we have determined that the fair value of such indemnification is not material to our financial position or results of operations.

NEW ACCOUNTING PRONOUNCEMENTS

We do not expect that any recently issued accounting pronouncements will have a material effect on our Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

Our previous discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

We believe the assumptions and judgments involved in the accounting estimates described below have the greatest potential impact on our Consolidated Financial Statements, so we consider these to be our critical accounting estimates. Management has reviewed and discussed these critical accounting estimates with the Audit & Finance Committee of the Board of Directors.

These policies require that we make estimates in the preparation of our Consolidated Financial Statements as of a given date. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting estimates. Within the context of these critical accounting estimates, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

REVENUE RECOGNITION

Revenue is recognized when transfer of control to the customer has occurred, which is either upon shipment or upon receipt, depending on the terms of sale. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly different than reserves established, a reduction or increase to net revenues would be recorded in the period in which such determination was made.

Refer also to Note 1 — Summary of Significant Accounting Policies and Note 16 — Revenues in the accompanying Notes to the Consolidated Financial Statements for additional information.

INVENTORY RESERVES

We make ongoing estimates relating to the net realizable value of inventories based upon our assumptions about future demand and market conditions. If we estimate the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated net realizable value. This reserve is recorded as a charge to Cost of sales. If changes in market conditions result in reductions to the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination.

CONTINGENT PAYMENTS UNDER ENDORSEMENT CONTRACTS

A significant amount of our Demand creation expense relates to payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g., winning a championship). We record Demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When we determine payments are probable, the amounts are reported in Demand creation expense ratably over the contract period based on our best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from our estimate due to changes in the endorser's performance, adjustments to Demand creation expense may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which we record in Cost of sales as the related sales occur. For contracts containing minimum guaranteed royalty payments, we record the amount of any guaranteed payment in excess of that earned through sales of product within Demand creation expense.

PROPERTY, PLANT AND EQUIPMENT AND DEFINITE-LIVED ASSETS

We review the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies that would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

HEDGE ACCOUNTING FOR DERIVATIVES

We use derivative contracts to hedge certain anticipated foreign currency and interest rate transactions as well as certain non-functional currency monetary assets and liabilities. When the specific criteria to qualify for hedge accounting has been met, changes in the fair value of contracts hedging probable forecasted future cash flows are recorded in Accumulated other comprehensive income (loss), rather than Net income, until the underlying hedged transaction affects Net income. In most cases, this results in gains and losses on hedge derivatives being released from Accumulated other comprehensive income (loss) into Net income sometime after the maturity of the derivative. One of the criteria for this accounting treatment is that the notional value of these derivative contracts should not be in excess of the designated amount of anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When the designated amount of anticipated or actual transactions decline below hedged levels, or if it is no longer probable a forecasted transaction will occur by the end of the originally specified time period or within an additional two-month period of time thereafter, we are required to reclassify the cumulative change in fair value of the over-hedged portion of the related hedge contract from Accumulated other comprehensive income (loss) to Other (income) expense, net during the quarter in which the decrease occurs. In rare circumstances, the additional period of time may exceed two months due to extenuating circumstances related to the nature of the forecasted transaction that are outside our control or influence.

INCOME TAXES

We are subject to taxation in the United States, as well as various state and foreign jurisdictions. The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. On an interim basis, we estimate our effective tax rate for the full fiscal year. This estimated annual effective tax rate is then applied to the year-to-date Income before income taxes excluding infrequently occurring or unusual items, to determine the year-to-date Income tax expense. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs.

We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets (such as net operating loss carry-forwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our net deferred tax asset, which increases our Income tax expense in the period when such determination is made.

We historically had not provided for deferred income taxes on the undistributed earnings of certain foreign subsidiaries as they were considered indefinitely reinvested outside the U.S. During the fourth quarter of fiscal 2022, in connection with a change in our legal entity structure that reduced the withholding tax consequences of a decision to remit undistributed earnings in the Netherlands, we changed our assertion regarding our ability and intent to indefinitely reinvest undistributed earnings of certain foreign subsidiaries. We have evaluated our historic indefinite reinvestment assertion as a result of the legal entity restructuring and determined that any historical or future undistributed earnings of foreign subsidiaries are no longer considered to be indefinitely reinvested. There is no deferred tax liability associated with those earnings.

On a quarterly basis, we evaluate the probability a tax position will be effectively sustained and the appropriateness of the amount recognized for uncertain tax positions based on factors including changes in facts or circumstances, changes in tax law, settled audit issues and new audit activity. Changes in our assessment may result in the recognition of a tax benefit or an additional charge to the tax provision in the period our assessment changes. We recognize interest and penalties related to income tax matters in Income tax expense.

Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

OTHER CONTINGENCIES

In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. If future adjustments to estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred. In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility the ultimate loss will materially exceed the recorded liability.

Refer to Note 18 — Commitments and Contingencies in the accompanying Notes to the Consolidated Financial Statements for additional information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business and consistent with established policies and procedures, we employ a variety of financial instruments to manage exposure to fluctuations in the value of foreign currencies and interest rates. It is our policy to utilize these financial instruments only where necessary to finance our business and manage such exposures; we do not enter into these transactions for trading or speculative purposes.

We are exposed to foreign currency fluctuations, primarily as a result of our international sales, product sourcing and funding activities. 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 use forward and option contracts to hedge certain anticipated, but not yet firmly committed, transactions as well as certain firm commitments and the related receivables and payables, including third-party and intercompany transactions. We have, in the past, and may in the future, also use forward or options contracts to hedge our investment in the net assets of certain international subsidiaries to offset foreign currency translation adjustments related to our net investment in those subsidiaries. Where exposures are hedged, our program has the effect of delaying the impact of exchange rate movements on our Consolidated Financial Statements.

The timing for hedging exposures, as well as the type and duration of the hedge instruments employed, are guided by our hedging policies and determined based upon the nature of the exposure and prevailing market conditions. 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 majority of derivatives outstanding as of May 31, 2022, are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Chinese Yuan/U.S. Dollar, and Japanese Yen/U.S. Dollar currency pairs. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional information.

Our earnings are also exposed to movements in short- and long-term market interest rates. Our objective in managing this interest rate exposure is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve these objectives, we maintain a mix of commercial paper, bank loans, and fixed-rate debt of varying maturities.

MARKET RISK MEASUREMENT

We monitor foreign exchange risk, interest rate risk and related derivatives using a variety of techniques including a review of market value, sensitivity analysis and Value-at-Risk ("VaR"). Our market-sensitive derivative and other financial instruments are foreign currency forward contracts, foreign currency option contracts, intercompany loans denominated in non-functional currencies and fixed interest rate U.S. Dollar denominated debt.

We use VaR to monitor the foreign exchange risk of our foreign currency forward and foreign currency option derivative instruments only. The VaR determines the maximum potential one-day loss in the fair value of these foreign exchange rate-sensitive financial instruments. The VaR model estimates assume normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the VaR computation. Our computations are based on interrelationships between currencies and interest rates (a "variance/co-variance" technique). These interrelationships are a function of foreign exchange currency market changes and interest rate changes over the preceding one-year period. The value of foreign currency options does not change on a one-to-one basis with changes in the underlying currency rate. We adjust the potential loss in option value for the estimated sensitivity (the "delta" and "gamma") to changes in the underlying currency rate. This calculation reflects the impact of foreign currency rate fluctuations on the derivative instruments only and does not include the impact of such rate fluctuations on non-functional currency transactions (such as anticipated transactions, firm commitments, cash balances and accounts and loans receivable and payable), including those which are hedged by these instruments.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value we will incur nor does it consider the potential effect of favorable changes in market rates. It also does not represent the full extent of the possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in fair value on our foreign currency sensitive derivative financial instruments, derived using the VaR model, was $99 million and $92 million as of May 31, 2022 and 2021, respectively. The VaR increased year-over-year as a result of an increase in foreign currency volatilities as of May 31, 2022. Such a hypothetical loss in the fair value of our derivatives would be offset by increases in the value of the underlying transactions being hedged. The average monthly change in the fair values of foreign currency forward and foreign currency option derivative instruments was $170 million and $184 million during fiscal 2022 and fiscal 2021, respectively.

The instruments not included in the VaR are intercompany loans denominated in non-functional currencies and fixed interest rate U.S. Dollar denominated debt. Intercompany loans and related interest amounts are eliminated in consolidation. Furthermore, our non-functional currency intercompany loans are substantially hedged against foreign exchange risk through the use of forward contracts, which are included in the VaR calculation above. Therefore, we consider the interest rate and foreign currency market risks associated with our non-functional currency intercompany loans to be immaterial to our consolidated financial position, results of operations and cash flows.

Details of third-party debt are provided in the table below. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

	EXPECTED MATURITY DATE YEAR ENDING MAY 31,							
(Dollars in millions)	**2023**	**2024**	**2025**	**2026**	**2027**	**THEREAFTER**	**TOTAL**	**FAIR VALUE**
Interest Rate Risk								
Long-term U.S. Dollar debt — Fixed rate								
Principal payments	$ 500	$ —	$1,000	$ —	$2,000	$ 6,000	$ 9,500	$ 8,933
Average interest rate	2.3 %	0.0 %	2.4 %	0.0 %	2.6 %	3.3 %	3.0 %	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management of NIKE, Inc. is responsible for the information and representations contained in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include certain amounts based on our best estimates and judgments. Other financial information in this report is consistent with these financial statements.

Our accounting systems include controls designed to reasonably assure assets are safeguarded from unauthorized use or disposition and provide for the preparation of financial statements in conformity with U.S. GAAP. These systems are supplemented by the selection and training of qualified financial personnel and an organizational structure providing for appropriate segregation of duties.

An internal corporate audit department reviews the results of its work with the Audit & Finance Committee of the Board of Directors, presently comprised of three outside, independent directors. The Audit & Finance Committee is responsible for the appointment of the independent registered public accounting firm and reviews, with the independent registered public accounting firm, management and the internal corporate audit staff, the scope and the results of the annual audit, the effectiveness of the accounting control system and other matters relating to the financial affairs of NIKE as the Audit & Finance Committee deems appropriate. The independent registered public accounting firm and the internal corporate auditors have full access to the Audit & Finance Committee, with and without the presence of management, to discuss any appropriate matters.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a) - 15(f) and Rule 15(d) - 15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets of the Company that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of May 31, 2022.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited (1) the Consolidated Financial Statements and (2) the effectiveness of our internal control over financial reporting as of May 31, 2022, as stated in their report herein.

John J. Donahoe II	**Matthew Friend**
President and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NIKE, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NIKE, Inc. and its subsidiaries (the "Company") as of May 31, 2022 and 2021, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended May 31, 2022, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of May 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of June 1, 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for Income Taxes

As described in Notes 1 and 9 to the consolidated financial statements, the Company recorded income tax expense of $605 million for the year ended May 31, 2022, and has net deferred tax assets of $1,665 million, including a valuation allowance of $19 million, and total gross unrecognized tax benefits, excluding related interest and penalties, of $848 million as of May 31, 2022, $626 million of which would affect the Company's effective tax rate if recognized in future periods. The realization of deferred tax assets is dependent on future taxable earnings. Management assesses the scheduled reversal of deferred tax liabilities, projected future taxable income and available tax planning strategies and considers foreign tax credit utilization in making this assessment of realization. A valuation allowance is established against the net deferred tax asset to the extent that recovery is not likely. The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. As disclosed by management, the use of significant judgment and estimates, as well as the interpretation and application of complex tax laws is required by management to determine the Company's provision for income taxes.

The principal considerations for our determination that performing procedures relating to the accounting for income taxes is a critical audit matter are a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to (i) management's assessment of complex tax laws and regulations as it relates to determining the provision for income taxes and (ii) management's assessment of the realizability of deferred tax assets, specifically related to available tax planning strategies. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to income taxes, including controls over management's assessment of the realizability of deferred tax assets. These procedures also included, among others, evaluating the effect on the Company's tax provision of changes in its legal entity structure, evaluating changes in and compliance with tax laws, and testing the calculation of the provision of income taxes, including assessing management’s tax planning strategies for the utilization of deferred tax assets. Professionals with specialized skill and knowledge were used to assist in evaluating changes in and compliance with the tax laws and regulations and the provision for income taxes.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 21, 2022

We have served as the Company's auditor since 1974.

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NIKE, INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED MAY 31,		
(In millions, except per share data)	**2022**	**2021**	**2020**
Revenues	$ 46,710	$ 44,538	$ 37,403
Cost of sales	25,231	24,576	21,162
Gross profit	21,479	19,962	16,241
Demand creation expense	3,850	3,114	3,592
Operating overhead expense	10,954	9,911	9,534
Total selling and administrative expense	14,804	13,025	13,126
Interest expense (income), net	205	262	89
Other (income) expense, net	(181)	14	139
Income before income taxes	6,651	6,661	2,887
Income tax expense	605	934	348
NET INCOME	**$ 6,046**	**$ 5,727**	**$ 2,539**
Earnings per common share:			
Basic	$ 3.83	$ 3.64	$ 1.63
Diluted	$ 3.75	$ 3.56	$ 1.60
Weighted average common shares outstanding:			
Basic	1,578.8	1,573.0	1,558.8
Diluted	1,610.8	1,609.4	1,591.6

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

NIKE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)	YEAR ENDED MAY 31, 2022	2021	2020
Net income	$ 6,046	$ 5,727	$ 2,539
Other comprehensive income (loss), net of tax:			
Change in net foreign currency translation adjustment	(522)	496	(148)
Change in net gains (losses) on cash flow hedges	1,214	(825)	(130)
Change in net gains (losses) on other	6	5	(9)
Total other comprehensive income (loss), net of tax	698	(324)	(287)
TOTAL COMPREHENSIVE INCOME	**$ 6,744**	**$ 5,403**	**$ 2,252**

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

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NIKE, INC.

CONSOLIDATED BALANCE SHEETS

	MAY 31,	
(In millions)	**2022**	**2021**
ASSETS		
Current assets:		
Cash and equivalents	$ 8,574	$ 9,889
Short-term investments	4,423	3,587
Accounts receivable, net	4,667	4,463
Inventories	8,420	6,854
Prepaid expenses and other current assets	2,129	1,498
Total current assets	28,213	26,291
Property, plant and equipment, net	4,791	4,904
Operating lease right-of-use assets, net	2,926	3,113
Identifiable intangible assets, net	286	269
Goodwill	284	242
Deferred income taxes and other assets	3,821	2,921
TOTAL ASSETS	**$ 40,321**	**$ 37,740**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 500	$ —
Notes payable	10	2
Accounts payable	3,358	2,836
Current portion of operating lease liabilities	420	467
Accrued liabilities	6,220	6,063
Income taxes payable	222	306
Total current liabilities	10,730	9,674
Long-term debt	8,920	9,413
Operating lease liabilities	2,777	2,931
Deferred income taxes and other liabilities	2,613	2,955
Commitments and contingencies (Note 18)		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 305 and 305 shares outstanding	—	—
Class B — 1,266 and 1,273 shares outstanding	3	3
Capital in excess of stated value	11,484	9,965
Accumulated other comprehensive income (loss)	318	(380)
Retained earnings (deficit)	3,476	3,179
Total shareholders' equity	15,281	12,767
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 40,321**	**$ 37,740**

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

NIKE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	YEAR ENDED MAY 31, 2022	2021	2020
Cash provided (used) by operations:			
Net income	$ 6,046	$ 5,727	$ 2,539
Adjustments to reconcile net income to net cash provided (used) by operations:			
Depreciation	717	744	721
Deferred income taxes	(650)	(385)	(380)
Stock-based compensation	638	611	429
Amortization, impairment and other	123	53	398
Net foreign currency adjustments	(26)	(138)	23
Changes in certain working capital components and other assets and liabilities:			
(Increase) decrease in accounts receivable	(504)	(1,606)	1,239
(Increase) decrease in inventories	(1,676)	507	(1,854)
(Increase) decrease in prepaid expenses, operating lease right-of-use assets and other current and non-current assets	(845)	(182)	(654)
Increase (decrease) in accounts payable, accrued liabilities, operating lease liabilities and other current and non-current liabilities	1,365	1,326	24
Cash provided (used) by operations	5,188	6,657	2,485
Cash provided (used) by investing activities:			
Purchases of short-term investments	(12,913)	(9,961)	(2,426)
Maturities of short-term investments	8,199	4,236	74
Sales of short-term investments	3,967	2,449	2,379
Additions to property, plant and equipment	(758)	(695)	(1,086)
Other investing activities	(19)	171	31
Cash provided (used) by investing activities	(1,524)	(3,800)	(1,028)
Cash provided (used) by financing activities:			
Proceeds from borrowings, net of debt issuance costs	—	—	6,134
Increase (decrease) in notes payable, net	15	(52)	49
Repayment of borrowings	—	(197)	(6)
Proceeds from exercise of stock options and other stock issuances	1,151	1,172	885
Repurchase of common stock	(4,014)	(608)	(3,067)
Dividends — common and preferred	(1,837)	(1,638)	(1,452)
Other financing activities	(151)	(136)	(52)
Cash provided (used) by financing activities	(4,836)	(1,459)	2,491
Effect of exchange rate changes on cash and equivalents	(143)	143	(66)
Net increase (decrease) in cash and equivalents	(1,315)	1,541	3,882
Cash and equivalents, beginning of year	9,889	8,348	4,466
CASH AND EQUIVALENTS, END OF YEAR	**$ 8,574**	**$ 9,889**	**$ 8,348**
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 290	$ 293	$ 140
Income taxes	1,231	1,177	1,028
Non-cash additions to property, plant and equipment	160	179	121
Dividends declared and not paid	480	438	385

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

NIKE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share data)	COMMON STOCK CLASS A SHARES	COMMON STOCK CLASS A AMOUNT	COMMON STOCK CLASS B SHARES	COMMON STOCK CLASS B AMOUNT	CAPITAL IN EXCESS OF STATED VALUE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance at May 31, 2019	**315**	**$ —**	**1,253**	**$ 3**	**$ 7,163**	**$ 231**	**$ 1,643**	**$ 9,040**
Stock options exercised			20		703			703
Repurchase of Class B Common Stock			(34)		(161)		(2,872)	(3,033)
Dividends on common stock ($0.955 per share) and preferred stock ($0.10 per share)							(1,491)	(1,491)
Issuance of shares to employees, net of shares withheld for employee taxes			4		165		(9)	156
Stock-based compensation					429			429
Net income							2,539	2,539
Other comprehensive income (loss)						(287)		(287)
Adoption of ASC Topic 842 (Note 1)							(1)	(1)
Balance at May 31, 2020	**315**	**$ —**	**1,243**	**$ 3**	**$ 8,299**	**$ (56)**	**$ (191)**	**$ 8,055**
Stock options exercised			21		954			954
Conversion to Class B Common Stock	(10)		10					—
Repurchase of Class B Common Stock			(5)		(28)		(622)	(650)
Dividends on common stock ($1.070 per share) and preferred stock ($0.10 per share)							(1,692)	(1,692)
Issuance of shares to employees, net of shares withheld for employee taxes			4		129		(43)	86
Stock-based compensation					611			611
Net income							5,727	5,727
Other comprehensive income (loss)						(324)		(324)
Balance at May 31, 2021	**305**	**$ —**	**1,273**	**$ 3**	**$ 9,965**	**$ (380)**	**$ 3,179**	**$ 12,767**
Stock options exercised			17		924			924
Repurchase of Class B Common Stock			(27)		(186)		(3,808)	(3,994)
Dividends on common stock ($1.190 per share) and preferred stock ($0.10 per share)							(1,886)	(1,886)
Issuance of shares to employees, net of shares withheld for employee taxes			3		143		(55)	88
Stock-based compensation					638			638
Net income							6,046	6,046
Other comprehensive income (loss)						698		698
Balance at May 31, 2022	**305**	**$ —**	**1,266**	**$ 3**	**$ 11,484**	**$ 318**	**$ 3,476**	**$ 15,281**

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley, prior to its divestiture in fiscal 2020, and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across Men's, Women's and Kids', amplified with sport-inspired lifestyle products carrying the Swoosh trademark, as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories using the Jumpman trademark. Sales and operating results of Jordan Brand products are reported within the respective NIKE Brand geographic operating segments. Sales and operating results of Hurley brand products, prior to its divestiture in fiscal 2020, were reported within the NIKE Brand's North America geographic operating segment. Refer to Note 20 — Acquisitions and Divestitures for information regarding the divestiture of the Company's wholly-owned subsidiary, Hurley. Converse designs, distributes, licenses and sells casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. In some markets outside the U.S., these trademarks are licensed to third parties who design, distribute, market and sell similar products. Operating results of the Converse brand are reported on a stand-alone basis.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of NIKE, Inc. and its subsidiaries (the "Company" or "NIKE"). All significant intercompany transactions and balances have been eliminated.

Economic sanctions imposed on Russia during the fourth quarter of fiscal 2022, impacted the Company's local business and a reduction in the Ruble liquidity affected the Company's ability to manage operational impact and related foreign currency risk. As a result, the Company deconsolidated its Russian legal entities, which resulted in a one-time, pre-tax charge of $96 million recognized within Other (income) expense, net, classified within Corporate. Subsequent to the end of fiscal 2022, the Company made the decision to leave the Russian marketplace.

REVENUE RECOGNITION

Revenue transactions associated with the sale of NIKE Brand footwear, apparel and equipment, as well as Converse products, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. The Company satisfies the performance obligation and records revenues when transfer of control to the customer has occurred, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product.

Control is transferred to wholesale customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. Control transfers to retail store customers at the time of sale and to substantially all digital commerce customers upon shipment. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers. Payment terms for wholesale transactions depend on the country of sale or agreement with the customer and payment is generally required within 90 days or less of shipment to or receipt by the wholesale customer. Payment is due at the time of sale for retail store and digital commerce transactions.

Consideration for trademark licensing contracts is earned through sales-based or usage-based royalty arrangements, and the associated revenues are recognized over the license period.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, and are collected by the Company from a customer, are excluded from Revenues and Cost of sales in the Consolidated Statements of Income. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in Cost of sales when the related revenues are recognized.

SALES-RELATED RESERVES

Consideration promised in the Company's contracts with customers is variable due to anticipated reductions, such as sales returns, discounts and miscellaneous claims from customers. The Company estimates the most likely amount it will be entitled to receive and records an anticipated reduction against Revenues, with an offsetting increase to Accrued liabilities at the time revenues are recognized. The estimated cost of inventory for product returns is recorded in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from estimates recorded. If actual or expected future returns, discounts or claims are significantly greater or lower than the reserves established, a reduction or increase to net Revenues is recorded in the period in which such determination is made.

COST OF SALES

Cost of sales consists primarily of inventory costs, as well as warehousing costs (including the cost of warehouse labor), third-party royalties, certain foreign currency hedge gains and losses and product design costs. Shipping and handling costs are expensed as incurred and included in Cost of sales.

DEMAND CREATION EXPENSE

Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, complimentary products, television, digital and print advertising as well as media costs, brand events and retail brand presentation. Advertising production costs are expensed the first time an advertisement is run. Advertising media costs are expensed when the advertisement appears. Costs related to brand events are expensed when the event occurs. Costs related to retail brand presentation are expensed when the presentation is complete and delivered.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contracts contain elements that may be accounted for differently based upon the facts and circumstances of each individual contract. Prepayments made under contracts are included in Prepaid expenses and other current assets or Deferred income taxes and other assets depending on the period to which the prepayment applies.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sport (e.g., winning a championship). The Company records Demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When the Company determines payments are probable, the amounts are reported in Demand creation expense ratably over the contract period based on the Company's best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from the Company's estimate due to changes in the endorser's performance, adjustments to Demand creation expense may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which the Company records in Cost of sales as the related sales occur. For contracts containing minimum guaranteed royalty payments, the Company records the amount of any guaranteed payment in excess of that earned through sales of product within Demand creation expense.

Through cooperative advertising programs, the Company reimburses its wholesale customers for certain costs of advertising the Company's products. To the extent the Company receives a distinct good or service in exchange for consideration paid to the customer does not exceed the fair value of that good or service, the amounts reimbursed are recorded in Demand creation expense.

Total advertising and promotion expenses, which the Company refers to as Demand creation expense, were $3,850 million, $3,114 million and $3,592 million for the years ended May 31, 2022, 2021 and 2020, respectively. Prepaid advertising and promotion expenses totaled $773 million and $630 million at May 31, 2022 and 2021, respectively, of which $329 million and $338 million, respectively, were recorded in Prepaid expenses and other current assets, and $444 million and $292 million, respectively, were recorded in Deferred income taxes and other assets, depending on the period to which the prepayment applied.

OPERATING OVERHEAD EXPENSE

Operating overhead expense consists primarily of wage and benefit-related expenses, research and development costs, bad debt expense as well as other administrative expenses such as rent, depreciation and amortization, professional services, certain technology investments, meetings and travel.

CASH AND EQUIVALENTS

Cash and equivalents represent cash and short-term, highly liquid investments, that are both readily convertible to known amounts of cash and so near their maturity they present insignificant risk of changes in value because of changes in interest rates, with maturities three months or less at the date of purchase.

SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid investments with maturities over 90 days at the date of purchase. At May 31, 2022 and 2021, Short-term investments consisted of available-for-sale debt securities, which are recorded at fair value with unrealized gains and losses reported, net of tax, in Accumulated other comprehensive income (loss), unless unrealized losses are determined to be unrecoverable. Realized gains and losses on the sale of securities are determined by specific identification. The Company considers all available-for-sale debt securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and, therefore, classifies all securities with maturity dates beyond three months at the date of purchase as current assets within Short-term investments on the Consolidated Balance Sheets.

Refer to Note 6 — Fair Value Measurements for more information on the Company's Short-term investments.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Accounts receivable, net consist primarily of amounts due from customers. The Company makes ongoing estimates relating to the collectability of its accounts receivable and maintains an allowance for expected losses resulting from the inability of its customers to make required payments. In addition to judgments about the creditworthiness of significant customers based on ongoing credit evaluations, the Company considers historical levels of credit losses, as well as macroeconomic and industry trends to determine the amount of the allowance. Accounts receivable with anticipated collection dates greater than 12 months from the balance sheet date and related allowances are considered non-current and recorded in Deferred income taxes and other assets. The allowance for uncollectible accounts receivable was $34 million and $93 million as of May 31, 2022 and 2021, respectively.

INVENTORY VALUATION

Inventories are stated at lower of cost and net realizable value and valued on either an average or a specific identification cost basis. In some instances, the Company ships products directly from its suppliers to the customer, with the related inventory and cost of sales recognized on a specific identification basis. Inventory costs primarily consist of product cost from the Company's suppliers, as well as inbound freight, import duties, taxes, insurance, logistics and other handling fees.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost. Depreciation is determined on a straight-line basis for land improvements, buildings and leasehold improvements over 2 to 40 years and for machinery and equipment over 2 to 15 years.

Depreciation and amortization of assets used in manufacturing, warehousing and product distribution are recorded in Cost of sales. Depreciation and amortization of all other assets are recorded in Operating overhead expense.

SOFTWARE DEVELOPMENT COSTS

Expenditures for major software purchases and software developed for internal use are capitalized and amortized over 2 to 12 years on a straight-line basis. The Company's policy provides for the capitalization of external direct costs associated with developing or obtaining internal use computer software. The Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer software projects. The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred.

Development costs of computer software to be sold, leased or otherwise marketed as an integral part of a product are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established; therefore, software development costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally, most software development costs have been expensed as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

The Company performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or an intangible asset with an indefinite life below its carrying value. Events or changes in circumstances that may trigger interim impairment reviews include significant changes in business climate, operating results, planned investments in the reporting unit, planned divestitures or an expectation that the carrying amount may not be recoverable, among other factors.

For purposes of testing goodwill for impairment, the Company allocates goodwill across its reporting units, which are considered the Company's operating segments. The Company may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, an impairment test is unnecessary. If an impairment test is necessary, the Company will estimate the fair value of its related reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is determined to be impaired and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

Indefinite-lived intangible assets primarily consist of acquired trade names and trademarks. The Company may first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the indefinite-lived intangible asset is not impaired, no quantitative fair value measurement is necessary. If a quantitative fair value measurement calculation is required for these intangible assets, the Company primarily utilizes the relief-from-royalty method. This method assumes trade names and trademarks have value to the extent their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires the Company to estimate the future revenues for the related brands, the appropriate royalty rate and the weighted average cost of capital. If the carrying value of the indefinite-lived intangible exceeds its fair value, the asset is determined to be impaired, and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

OPERATING LEASES

Beginning in fiscal 2020, the Company adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The Company's lease recognition policies under Topic 842 are described in the following paragraphs.

The Company primarily leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets. The Company determines if an arrangement is a lease at inception and begins recording lease activity at the commencement date, which is generally the date in which the Company takes possession of or controls the physical use of the asset. Lease components are not separated from non-lease components for real estate leases within the Company's lease portfolio. Right-of-use (ROU) assets and lease liabilities are recognized based on the present value of lease payments over the lease term with lease expense recognized on a straight-line basis. The Company's incremental borrowing rate is used to determine the present value of future lease payments unless the implicit rate is readily determinable.

Lease agreements may contain rent escalation clauses, renewal or termination options, rent holidays or certain landlord incentives, including tenant improvement allowances. ROU assets include amounts for scheduled rent increases and are reduced by the amount of lease incentives. The lease term includes the non-cancelable period of the lease and options to extend or terminate the lease when it is reasonably certain the Company will exercise those options. The Company does not record leases with an initial term of 12 months or less on the Consolidated Balance Sheets and recognizes related lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term. Certain lease agreements include variable lease payments, which are based on a percent of retail sales over specified levels or adjust periodically for inflation as a result of changes in a published index, primarily the Consumer Price Index, and are expensed as incurred.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivatives, equity securities and available-for-sale debt 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 a three-level hierarchy that prioritizes fair value measurements based on the types of inputs used, as follows:

- 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 or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs with 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 a majority of 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 its counterparties.

The Company's fair value measurement process includes comparing fair values to another independent pricing vendor to ensure appropriate fair values are recorded.

Refer to Note 6 — Fair Value Measurements for additional information.

FOREIGN CURRENCY TRANSLATION AND FOREIGN CURRENCY TRANSACTIONS

Adjustments resulting from translating foreign functional currency financial statements into U.S. Dollars are included in the foreign currency translation adjustment, a component of Accumulated other comprehensive income (loss) in Total shareholders' equity.

The Company's global subsidiaries have various monetary assets and liabilities, primarily receivables and payables, which are denominated in currencies other than their functional currency. These balance sheet items are subject to remeasurement, the impact of which is recorded in Other (income) expense, net, within the Consolidated Statements of Income.

ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to reduce its exposure to changes in foreign currency exchange rates and interest rates. All derivatives are recorded at fair value on the Consolidated Balance Sheets and changes in the fair value of derivative financial instruments are either recognized in Accumulated other comprehensive income (loss) (a component of Total shareholders' equity), Long-term debt or Net income depending on the nature of the underlying exposure, whether the derivative is formally designated as a hedge and, if designated, the extent to which the hedge is effective. The Company classifies the cash flows at settlement from derivatives in the same category as the cash flows from the related hedged items. For undesignated hedges and designated cash flow hedges, this is primarily within the Cash provided by operations component of the Consolidated Statements of Cash Flows. For designated net investment hedges, this is within the Cash used by investing activities component of the Consolidated Statements of Cash Flows. For the Company's fair value hedges, which are interest rate swaps used to mitigate the change in fair value of its fixed-rate debt attributable to changes in interest rates, the related cash flows from periodic interest payments are reflected within the Cash provided by operations component of the Consolidated Statements of Cash Flows.

Refer to Note 14 — Risk Management and Derivatives for additional information on the Company's risk management program and derivatives.

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STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation by estimating the fair value, net of estimated forfeitures, of equity awards and recognizing the related expense as Cost of sales or Operating overhead expense, as applicable, in the Consolidated Statements of Income on a straight-line basis over the vesting period. Substantially all awards vest ratably over four years of continued employment, with stock options expiring 10 years from the date of grant. Performance-based restricted stock units vest based on the Company's achievement of certain performance criteria throughout the three-year performance period and continued employment through the vesting date. The fair value of options, stock appreciation rights and employees' purchase rights under the employee stock purchase plans (ESPPs) is determined using the Black-Scholes option pricing model. The fair value of restricted stock and time-vesting restricted stock units is established by the market price on the date of grant. The fair value of performance-based restricted stock units is estimated as of the grant date using a Monte Carlo simulation.

Refer to Note 11 — Common Stock and Stock-Based Compensation for additional information on the Company's stock-based compensation programs.

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company records a valuation allowance to reduce deferred tax assets to the amount management believes is more likely than not to be realized. Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. At least quarterly, the Company assesses taxable income in prior carryback periods, the scheduled reversal of deferred tax liabilities, projected future taxable income and available tax planning strategies. The Company uses forecasts of taxable income and considers foreign tax credit utilization in making this assessment of realization, which are inherently uncertain and can result in significant variation between estimated and actual results. To the extent the Company believes that recovery is not likely, a valuation allowance is established against the net deferred tax asset, which increases the Company’s income tax expense in the period when such determination is made.

The Company recognizes a tax benefit from uncertain tax positions in the financial statements only when it is more likely than not the position will be sustained upon examination by relevant tax authorities. The Company recognizes interest and penalties related to income tax matters in Income tax expense.

Refer to Note 9 — Income Taxes for further discussion.

EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing Net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive stock options and awards.

Refer to Note 12 — Earnings Per Share for further discussion.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Additionally, the extent to which the evolving COVID-19 pandemic impacts the Company's financial statements will depend on a number of factors, including the further spread and duration of COVID-19 and the economic impacts of the pandemic. There remains risk that COVID-19 could have a material, adverse impact on future revenue growth as well as overall profitability.

NOTE 2 — INVENTORIES

Inventory balances of $8,420 million and $6,854 million as of May 31, 2022 and 2021, respectively, were substantially all finished goods.

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NOTE 3 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net included the following:

	MAY 31,	
(Dollars in millions)	2022	2021
Land and improvements	$ 330	$ 363
Buildings	3,170	3,365
Machinery and equipment	2,870	3,023
Internal-use software	1,616	1,391
Leasehold improvements	1,712	1,608
Construction in process	399	311
Total property, plant and equipment, gross	10,097	10,061
Less accumulated depreciation	5,306	5,157
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,791**	**$ 4,904**

Capitalized interest was not material for the fiscal years ended May 31, 2022, 2021 and 2020.

NOTE 4 — IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets, net consist of indefinite-lived trademarks, acquired trademarks and other intangible assets. The following table summarizes the Company's Identifiable intangible assets, net balances:

	MAY 31,					
	2022			2021		
(Dollars in millions)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Indefinite-lived trademarks	$ 259	$ —	$ 259	$ 246	$ —	$ 246
Acquired trademarks and other	66	39	27	50	27	23
IDENTIFIABLE INTANGIBLE ASSETS, NET	**$ 325**	**$ 39**	**$ 286**	**$ 296**	**$ 27**	**$ 269**

Goodwill was $284 million and $242 million as of May 31, 2022 and 2021, respectively, and there were no accumulated impairment losses as of May 31, 2022 and 2021. Additionally, the impact to Goodwill during fiscal 2022 and 2021 as a result of acquisitions and divestitures was not material.

NOTE 5 — ACCRUED LIABILITIES

Accrued liabilities included the following:

(Dollars in millions)	MAY 31, 2022	2021
Compensation and benefits, excluding taxes	$ 1,297	$ 1,472
Sales-related reserves	1,015	1,077
Allowance for expected loss on sale[1]	397	358
Other	3,511	3,156
TOTAL ACCRUED LIABILITIES	**$ 6,220**	**$ 6,063**

(1) *Refer to Note 20 — Acquisitions and Divestitures for additional information.*

NOTE 6 — FAIR VALUE MEASUREMENTS

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of May 31, 2022 and 2021, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement. Refer to Note 1 — Summary of Significant Accounting Policies for additional detail regarding the Company's fair value measurement methodology.

	MAY 31, 2022		
(Dollars in millions)	ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS
Cash	$ 839	$ 839	$ —
Level 1:			
U.S. Treasury securities	3,801	8	3,793
Level 2:			
Commercial paper and bonds	660	37	623
Money market funds	6,458	6,458	—
Time deposits	1,237	1,232	5
U.S. Agency securities	2	—	2
Total Level 2	8,357	7,727	630
TOTAL	**$ 12,997**	**$ 8,574**	**$ 4,423**

	MAY 31, 2021		
(Dollars in millions)	ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS
Cash	$ 840	$ 840	$ —
Level 1:			
U.S. Treasury securities	2,892	—	2,892
Level 2:			
Commercial paper and bonds	748	57	691
Money market funds	7,701	7,701	—
Time deposits	1,293	1,291	2
U.S. Agency securities	2	—	2
Total Level 2	9,744	9,049	695
TOTAL	**$ 13,476**	**$ 9,889**	**$ 3,587**

As of May 31, 2022, the Company held $2,617 million of available-for-sale debt securities with maturity dates within one year and $1,806 million with maturity dates over one year and less than five years in Short-term investments on the Consolidated Balance Sheets. The fair value of the Company's available-for-sale debt securities approximates their amortized cost.

Included in Interest expense (income), net was interest income related to the Company's investment portfolio of $94 million, $34 million and $62 million for the years ended May 31, 2022, 2021 and 2020, respectively.

The Company records the assets and liabilities of its derivative financial instruments on a gross basis on the 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. Any amounts of cash collateral posted related to these instruments associated with the Company's credit-related contingent features are recorded in Prepaid expenses and other current assets, which would further offset against the Company's derivative liability balance. 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 Consolidated Statements of Cash Flows. The Company does not recognize amounts of non-cash collateral received, such as securities, on the Consolidated Balance Sheets. For further information related to credit risk, refer to Note 14 — Risk Management and Derivatives.

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement:

(Dollars in millions)	MAY 31, 2022					
	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[1]	$ 875	$ 669	$ 206	$ 76	$ 65	$ 11
Embedded derivatives	5	5	—	1	1	—
TOTAL	**$ 880**	**$ 674**	**$ 206**	**$ 77**	**$ 66**	**$ 11**

(1) 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 $76 million as of May 31, 2022. As of that date, the Company received $486 million of cash collateral from counterparties related to foreign exchange derivative instruments. No amount of collateral was posted on the derivative liability balance as of May 31, 2022.

(Dollars in millions)	MAY 31, 2021					
	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[1]	$ 92	$ 76	$ 16	$ 456	$ 415	$ 41
Embedded derivatives	—	—	—	1	1	—
TOTAL	**$ 92**	**$ 76**	**$ 16**	**$ 457**	**$ 416**	**$ 41**

(1) 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 $93 million as of May 31, 2021. As of that date, the Company had posted $39 million of cash collateral to various counterparties related to foreign exchange derivative instruments. No amount of collateral was received on the Company's derivative asset balance as of May 31, 2021.

For additional information related to the Company's derivative financial instruments, refer to Note 14 — Risk Management and Derivatives. For fair value information regarding Notes payable and Long-term debt, refer to Note 7 — Short-Term Borrowings and Credit Lines and Note 8 — Long-Term Debt, respectively.

The carrying amounts of other current financial assets and other current financial liabilities approximate fair value.

NON-RECURRING FAIR VALUE MEASUREMENTS

As further discussed in Note 20 — Acquisitions and Divestitures, during fiscal 2020, the Company met the criteria to recognize the related assets and liabilities of its Brazil, Argentina, Chile and Uruguay entities as held-for-sale. This required the Company to remeasure the disposal groups at fair value, less costs to sell, which is considered a Level 3 fair value measurement and was based on each transaction's estimated consideration. During fiscal 2022, the Company continued to use estimated consideration to measure the fair value of each disposal group.

All other assets or liabilities required to be measured at fair value on a non-recurring basis as of May 31, 2022 and 2021 were immaterial.

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NOTE 7 — SHORT-TERM BORROWINGS AND CREDIT LINES

Notes payable as of May 31, 2022 and 2021, are summarized below:

	MAY 31,					
	2022			2021		
(Dollars in millions)	BORROWINGS		INTEREST RATE	BORROWINGS		INTEREST RATE
Notes payable:						
U.S. operations	$	—	0.00 %		—	0.00 %
Non-U.S. operations	$	10	19.80 %(1)	$	2	17.80 %(1)
TOTAL NOTES PAYABLE	**$**	**10**		**$**	**2**	

(1) Weighted average interest rate includes non-interest bearing overdrafts.

The carrying amounts reflected in the Consolidated Balance Sheets for Notes payable approximate fair value.

On March 11, 2022, the Company entered into a 364-day committed credit facility agreement with a syndicate of banks, which provides for up to $1 billion of borrowings, with an option to increase borrowings up to $1.5 billion in total with lender approval. The facility matures on March 10, 2023, with an option to extend the maturity date an additional 364 days. This facility replaces the prior $1 billion 364-day credit facility agreement entered into on March 15, 2021, which would have matured on March 14, 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 Term Secured Overnight Financing Rate (Term SOFR) for the applicable interest period plus 0.60%. The facility fee is 0.02% of the total undrawn commitment.

On March 11, 2022, the Company also entered into a five-year committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings, with the option to increase borrowings up to $3 billion in total with lender approval. The facility matures on March 11, 2027, with options to extend the maturity date up to an additional two years. This facility replaces the prior $2 billion five-year credit facility agreement entered into on August 16, 2019, which would have matured on August 16, 2024. 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 Term SOFR for the applicable interest period plus 0.60%. The facility fee is 0.04% of the total undrawn commitment.

As of and for the periods ended May 31, 2022 and 2021, no amounts were outstanding under any of the Company's committed credit facilities.

NOTE 8 — LONG-TERM DEBT

Long-term debt, net of unamortized premiums, discounts and debt issuance costs, comprises the following:

Scheduled Maturity (Dollars in millions)	ORIGINAL PRINCIPAL	INTEREST RATE	INTEREST PAYMENTS	BOOK VALUE OUTSTANDING AS OF MAY 31, 2022	2021
Corporate Term Debt:[1][2]					
May 1, 2023	$ 500	2.25 %	Semi-Annually	$ 500	$ 499
March 27, 2025	1,000	2.40 %	Semi-Annually	996	995
November 1, 2026	1,000	2.38 %	Semi-Annually	997	996
March 27, 2027	1,000	2.75 %	Semi-Annually	996	995
March 27, 2030	1,500	2.85 %	Semi-Annually	1,491	1,490
March 27, 2040	1,000	3.25 %	Semi-Annually	986	986
May 1, 2043	500	3.63 %	Semi-Annually	496	496
November 1, 2045	1,000	3.88 %	Semi-Annually	985	984
November 1, 2046	500	3.38 %	Semi-Annually	492	491
March 27, 2050	1,500	3.38 %	Semi-Annually	1,481	1,481
Total				9,420	9,413
Less Current Portion of Long-Term Debt				500	—
TOTAL LONG-TERM DEBT				**$ 8,920**	**$ 9,413**

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

(2) The bonds are redeemable at the Company's option 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. However, 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 on or after the Par Call Date, as defined in the respective notes.

The scheduled maturity of Long-term debt in each of the years ending May 31, 2023 through 2027, are $500 million, $0 million, $1,000 million, $0 million and $2,000 million, respectively, at face value.

The Company's Long-term debt is recorded at adjusted cost, net of unamortized premiums, discounts and debt issuance costs. 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 $8,933 million and $10,275 million as of May 31, 2022 and 2021, respectively.

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NOTE 9 — INCOME TAXES

Income before income taxes is as follows:

	YEAR ENDED MAY 31,		
(Dollars in millions)	2022	2021	2020
Income before income taxes:			
United States	$ 6,020	$ 5,723	$ 2,954
Foreign	631	938	(67)
TOTAL INCOME BEFORE INCOME TAXES	**$ 6,651**	**$ 6,661**	**$ 2,887**

The provision for income taxes is as follows:

	YEAR ENDED MAY 31,		
(Dollars in millions)	2022	2021	2020
Current:			
United States			
Federal	$ 231	$ 328	$ (109)
State	98	134	81
Foreign	926	857	756
Total Current	1,255	1,319	728
Deferred:			
United States			
Federal	(522)	(371)	(231)
State	(16)	(34)	(47)
Foreign	(112)	20	(102)
Total Deferred	(650)	(385)	(380)
TOTAL INCOME TAX EXPENSE	**$ 605**	**$ 934**	**$ 348**

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate is as follows:

	YEAR ENDED MAY 31,		
	2022	2021	2020
Federal income tax rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	1.4 %	1.3 %	0.8 %
Foreign earnings	-1.8 %	0.2 %	5.9 %
Subpart F deferred tax benefit	-4.7 %	0.0 %	0.0 %
Foreign-derived intangible income benefit	-4.1 %	-3.7 %	-8.1 %
Excess tax benefits from share-based compensation	-4.9 %	-4.5 %	-7.2 %
Income tax audits and contingency reserves	1.5 %	1.5 %	-1.4 %
U.S. research and development tax credit	-1.0 %	-0.9 %	-1.8 %
Other, net	1.7 %	-0.9 %	2.9 %
EFFECTIVE INCOME TAX RATE	**9.1 %**	**14.0 %**	**12.1 %**

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Tax Act"), which significantly changed U.S. tax law and included a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries. The Company recognizes taxes due under the GILTI provision as a current period expense.

The effective tax rate for the fiscal year ended May 31, 2022 was lower than the effective tax rate for the fiscal year ended May 31, 2021. The decrease was primarily due to a shift in the Company's earnings mix and recognition of a non-cash, one-time benefit related to the onshoring of the Company's non-U.S. intangible property. During the fourth quarter of fiscal 2022, the Company onshored certain non-U.S. intangible property ownership rights and implemented changes in the Company's legal entity structure. The tax restructuring increases the possibility that foreign earnings in future periods will be subject to tax in the U.S. due to Subpart F of the Internal Revenue Code. The Company recognized a deferred tax asset and corresponding non-cash deferred income tax benefit of 4.7%, to establish the deferred tax deduction that is expected to reduce taxable income in future periods.

The effective tax rate for the fiscal year ended May 31, 2021 was higher than the effective tax rate for the fiscal year ended May 31, 2020, due to a change in the proportion of earnings taxed in the U.S., related to the recovery from the impact of the COVID-19 pandemic and less favorable impacts from discrete items such as stock-based compensation. Income tax audit and contingency reserves for the fiscal year ended May 31, 2021, reflects recognition of a reserve of 1.2% related to *Altera Corp. v. Commissioner*, where the taxpayer was denied a hearing before the U.S. Supreme Court on June 22, 2020, thereby ratifying the Ninth Circuit Court's decision and requiring the inclusion of stock-based compensation in intercompany cost-sharing arrangements, and other matters of 0.3%.

Deferred tax assets and liabilities comprise the following as of:

	MAY 31,	
(Dollars in millions)	**2022**	**2021**
Deferred tax assets:		
Inventories[(1)]	$ 136	$ 78
Sales return reserves[(1)]	109	100
Deferred compensation[(1)]	313	350
Stock-based compensation	195	175
Reserves and accrued liabilities[(1)]	145	96
Operating lease liabilities	508	499
Intangibles	275	187
Capitalized research and development expenditures	353	349
Net operating loss carry-forwards	8	15
Subpart F deferred tax	313	—
Foreign tax credit carry-forward	103	—
Other[(1)]	148	178
Total deferred tax assets	2,606	2,027
Valuation allowance	(19)	(12)
Total deferred tax assets after valuation allowance	2,587	2,015
Deferred tax liabilities:		
Foreign withholding tax on undistributed earnings of foreign subsidiaries	(146)	(182)
Property, plant and equipment[(1)]	(247)	(255)
Right-of-use assets	(437)	(431)
Other[(1)]	(92)	(14)
Total deferred tax liabilities	(922)	(882)
NET DEFERRED TAX ASSET	**$ 1,665**	**$ 1,133**

(1) The above amounts exclude deferred taxes held-for-sale as of May 31, 2022 and 2021. See Note 20 — Acquisitions and Divestitures for additional information.

The following is a reconciliation of the changes in the gross balance of unrecognized tax benefits as of:

(Dollars in millions)	MAY 31, 2022	2021	2020
Unrecognized tax benefits, beginning of the period	$ 896	$ 771	$ 808
Gross increases related to prior period tax positions	71	77	181
Gross decreases related to prior period tax positions	(145)	(22)	(171)
Gross increases related to current period tax positions	62	59	50
Settlements	(17)	(5)	(58)
Lapse of statute of limitations	(10)	(6)	(28)
Changes due to currency translation	(9)	22	(11)
UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD	**$ 848**	**$ 896**	**$ 771**

As of May 31, 2022, total gross unrecognized tax benefits, excluding related interest and penalties, were $848 million, of which $626 million would affect the Company's effective tax rate if recognized in future periods. The majority of the total gross unrecognized tax benefits are long-term in nature and included within Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

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The Company recognizes interest and penalties related to income tax matters in Income tax expense. The liability for payment of interest and penalties increased by $45 million during the fiscal year ended May 31, 2022, increased by $45 million during the fiscal year ended May 31, 2021, and decreased by $16 million during the fiscal year ended May 31, 2020. As of May 31, 2022 and 2021, accrued interest and penalties related to uncertain tax positions were $248 million and $203 million, respectively (excluding federal benefit) and included within Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

As of May 31, 2022 and 2021, long-term income taxes payable were $535 million and $640 million, respectively, and were included within Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

The Company is subject to taxation in the U.S., as well as various state and foreign jurisdictions. The Company is currently under audit by the U.S. IRS for fiscal years 2017 through 2019. The Company has closed all U.S. federal income tax matters through fiscal 2016, with the exception of certain transfer pricing adjustments. Tax years after 2011 remain open in certain major foreign jurisdictions. 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 $20 million within the next 12 months. In January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. The Company believes the investigation is without merit. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to prior periods, and the Company's income taxes related to prior periods in the Netherlands could increase.

The Company historically had not provided for deferred income taxes on the undistributed earnings of certain foreign subsidiaries as they were considered indefinitely reinvested outside the U.S. During the fourth quarter of fiscal 2022, in connection with a change in the Company's legal entity structure that reduced the withholding tax consequences of a decision to remit undistributed earnings in the Netherlands, the Company changed its assertion regarding its ability and intent to indefinitely reinvest undistributed earnings of certain foreign subsidiaries. The Company has evaluated its historic indefinite reinvestment assertion as a result of the legal entity restructuring and determined that any historical or future undistributed earnings of foreign subsidiaries are no longer considered to be indefinitely reinvested. There is no deferred tax liability associated with those earnings.

A portion of the Company's foreign operations benefit from a tax holiday, which is set to expire in 2031. This tax holiday may be extended when certain conditions are met or may be terminated early if certain conditions are not met. The tax benefit attributable to this tax holiday, before taking into consideration other U.S. indirect tax provisions, was $221 million, $238 million and $238 million for the fiscal years ended May 31, 2022, 2021 and 2020, respectively. The benefit of the tax holiday on diluted earnings per common share was $0.14, $0.15 and $0.15 for the fiscal years ended May 31, 2022, 2021 and 2020, respectively.

Deferred tax assets as of May 31, 2022 and 2021, were reduced by a valuation allowance. For the fiscal year ended May 31, 2022, a valuation allowance was provided for U.S. capital loss carryforwards and on tax benefits generated by certain entities with operating losses. For the fiscal year ended May 31, 2021, a valuation allowance was provided for U.S. capital loss carryforwards and on tax benefits generated by certain entities with operating losses. There was a $7 million net increase in the valuation allowance for the fiscal year ended May 31, 2022, compared to a $14 million net decrease for the fiscal year ended May 31, 2021, and $62 million net decrease for the fiscal year ended May 31, 2020.

The Company has recorded deferred tax assets of $103 million as of May 31, 2022 for U.S. foreign tax credit carry-forwards which will begin to expire in 2032.

The Company has available domestic and foreign loss carry-forwards of $44 million as of May 31, 2022. If not utilized, such losses will expire as follows:

	YEAR ENDING MAY 31,						
(Dollars in millions)	**2023**	**2024**	**2025**	**2026**	**2027-2042**	**INDEFINITE**	**TOTAL**
Net operating losses	$ —	$ —	$ —	$ —	$ 7	$ 37	$ 44

NOTE 10 — REDEEMABLE PREFERRED STOCK

Sojitz America is the sole owner of the Company's authorized redeemable preferred stock, $1 par value, which is redeemable at the option of Sojitz America or the Company at par value aggregating $0.3 million. A cumulative dividend of $0.10 per share is payable annually on May 31, and no dividends may be declared or paid on the common stock of the Company unless dividends on the redeemable preferred stock have been declared and paid in full. There have been no changes in the redeemable preferred stock in the fiscal years ended May 31, 2022, 2021 and 2020. As the holder of the redeemable preferred stock, Sojitz America does not have general voting rights but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries; on merger, consolidation, liquidation or dissolution of the Company; or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States. The redeemable preferred stock has been fully issued to Sojitz America and is not blank check preferred stock. The Company's articles of incorporation do not permit the issuance of additional preferred stock.

NOTE 11 — COMMON STOCK AND STOCK-BASED COMPENSATION

COMMON STOCK

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 holders of Class A and Class B Common Stock. From time to time, the Company's Board of Directors authorizes share repurchase programs for the repurchase of Class B Common Stock. The value of repurchased shares is deducted from Total shareholders' equity through allocation to Capital in excess of stated value and Retained earnings.

STOCK-BASED COMPENSATION

The NIKE, Inc. Stock Incentive Plan (the “Stock Incentive Plan”) provides for the issuance of up to 798 million previously unissued shares of Class B Common Stock in connection with equity 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, and stock awards, including restricted stock and restricted stock units. Restricted stock units include both time-vesting restricted stock units (RSUs) as well as performance-based restricted stock units (PSUs). A committee of the Board of Directors administers the Stock Incentive Plan and 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. The Company generally grants stock options, restricted stock and restricted stock units on an annual basis. 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. Substantially all awards under the Stock Incentive Plan vest ratably over 4 years of continued employment, with stock options expiring 10 years from the date of grant. During the fiscal year ended May 31, 2022, under the Stock Incentive Plan, the Company granted PSUs which replaced cash-based long-term incentive awards historically granted under the Company's Long-Term Incentive Plan. The impact of granting PSUs during the fiscal year ended May 31, 2022, was not material to the Company’s Consolidated Financial Statements.

The following table summarizes the Company's total stock-based compensation expense recognized in Cost of sales or Operating overhead expense, as applicable:

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2022**	**2021**	**2020**
Stock options[1]	$ 297	$ 323	$ 237
ESPPs	60	63	53
Restricted stock and restricted stock units[1][2]	281	225	139
TOTAL STOCK-BASED COMPENSATION EXPENSE	**$ 638**	**$ 611**	**$ 429**

(1) Expense for stock options includes the expense associated with stock appreciation rights. Accelerated stock option expense is primarily recorded for employees meeting certain retirement eligibility requirements and was $57 million, $67 million and $53 million for the fiscal years ended May 31, 2022, 2021 and 2020, respectively. During fiscal 2022 and 2021, an immaterial amount of accelerated stock option and restricted stock unit expense was also recorded for certain employees impacted by the Company's organizational realignment. For more information, see Note 21 — Restructuring.

(2) Restricted stock units includes RSUs and PSUs.

The income tax benefit related to stock-based compensation expense was $327 million, $297 million and $207 million for the fiscal years ended May 31, 2022, 2021 and 2020, respectively, and reported within Income tax expense.

STOCK OPTIONS

The weighted average fair value per share of the options granted during the years ended May 31, 2022, 2021 and 2020, computed as of the grant date using the Black-Scholes pricing model, was $37.53, $26.75 and $18.71, respectively. The weighted average assumptions used to estimate these fair values were as follows:

	YEAR ENDED MAY 31,		
	2022	2021	2020
Dividend yield	0.8 %	0.9 %	1.0 %
Expected volatility	24.9 %	27.3 %	23.0 %
Weighted average expected life (in years)	5.8	6.0	6.0
Risk-free interest rate	0.9 %	0.4 %	1.5 %

Expected volatilities are based on an analysis of the historical volatility of the Company's common stock, the implied volatility in market traded options on the Company's common stock with a term greater than one year, as well as 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.

The following summarizes the stock option transactions under the plan discussed above:

	SHARES[(1)]	WEIGHTED AVERAGE OPTION PRICE
	(In millions)	
Options outstanding as of May 31, 2021	78.3	$ 72.88
Exercised	(17.1)	54.32
Forfeited	(2.5)	114.89
Granted	9.3	164.91
Options outstanding as of May 31, 2022	68.0	$ 88.66

(1) Includes stock appreciation rights transactions.

Options exercisable as of May 31, 2022 were 40.3 million and had a weighted average option price of $68.15 per share. The aggregate intrinsic value for options outstanding and exercisable as of May 31, 2022 was $2,456 million and $2,045 million, respectively. The total intrinsic value of the options exercised during the years ended May 31, 2022, 2021 and 2020 was $1,742 million, $1,571 million and $1,161 million, respectively. The intrinsic value is the amount by which the market value of the underlying stock exceeds the exercise price of the options. The weighted average contractual life remaining for options outstanding and options exercisable as of May 31, 2022 was 6.0 years and 4.6 years, respectively. As of May 31, 2022, the Company had $405 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in Cost of sales or Operating overhead expense, as applicable, over a weighted average remaining period of 2.5 years.

EMPLOYEE STOCK PURCHASE PLANS

In addition to the Stock Incentive Plan, the Company gives employees the right to purchase shares at a discount from the market price under employee stock purchase plans (ESPPs). Subject to the annual statutory limit, 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. Employees purchased 2.0 million, 2.5 million and 2.7 million shares during each of the fiscal years ended May 31, 2022, 2021 and 2020, respectively.

RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Recipients of restricted stock are entitled to cash dividends and to vote their respective shares throughout the period of restriction. Recipients of restricted stock units, which includes RSUs and PSUs, are entitled to dividend equivalent cash payments upon vesting. The number of shares of restricted stock and restricted stock units vested includes shares of common stock withheld by the Company on behalf of employees to satisfy the minimum statutory tax withholding requirements.

PSUs provide the right to receive shares of the Company's common stock based on the Company's achievement of certain performance criteria throughout the three-year performance period and continued employment through the vesting date. As such, the number of shares issued at the end of the performance period may range between 0% and 200% of the original target award amount (100%).

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The following summarizes the restricted stock and restricted stock unit activity under the plan discussed above:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
	(In millions)	
Nonvested as of May 31, 2021	6.6	$ 99.70
Vested	(2.3)	93.70
Forfeited	(0.7)	123.54
Granted[(1)]	3.1	168.04
Nonvested as of May 31, 2022	6.7	$ 130.88

(1) Includes 0.5 million PSUs, which are presented assuming issuance at the original target award amount (100%).

The weighted average fair value per share of restricted stock and RSUs granted for the fiscal years ended May 31, 2022, 2021 and 2020, computed as of the grant date, was $153.63, $113.84 and $88.26, respectively. During the fiscal years ended May 31, 2022, 2021 and 2020, the aggregate fair value of vested restricted stock and RSUs was $354 million, $310 million and $98 million, respectively, computed as of the date of vesting.

The weighted average fair value per share of PSUs granted for the fiscal year ended May 31, 2022, computed as of the grant date was $239.38. The fair value of PSUs is estimated on the grant date using a Monte Carlo simulation assuming a weighted average expected volatility of 27.1% and weighted average risk-free interest rate of 0.5%. Expected volatilities are based on an analysis of the historical volatility of the Company's common stock at the date of grant for periods corresponding with the vesting period of the PSU. 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 vesting period of the PSU. No PSUs vested during the fiscal year ended May 31, 2022.

As of May 31, 2022, the Company had $587 million of unrecognized compensation costs from restricted stock and restricted stock units, net of estimated forfeitures, to be recognized in Cost of sales or Operating overhead expense, as applicable, over a weighted average remaining period of 2.4 years.

NOTE 12 — 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 restricted stock, restricted stock units and options, including shares under ESPPs, to purchase an estimated additional 9.4 million, 11.3 million and 30.6 million shares of common stock outstanding for the fiscal years ended May 31, 2022, 2021 and 2020, respectively, because the awards were assumed to be anti-dilutive.

	YEAR ENDED MAY 31,		
(In millions, except per share data)	**2022**	**2021**	**2020**
Net income available to common stockholders	$ 6,046	$ 5,727	$ 2,539
Determination of shares:			
Weighted average common shares outstanding	1,578.8	1,573.0	1,558.8
Assumed conversion of dilutive stock options and awards	32.0	36.4	32.8
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**1,610.8**	**1,609.4**	**1,591.6**
Earnings per common share:			
Basic	$ 3.83	$ 3.64	$ 1.63
Diluted	$ 3.75	$ 3.56	$ 1.60

NOTE 13 — BENEFIT PLANS

The Company has a qualified 401(k) Savings and Profit Sharing Plan, in which all U.S. employees are able to participate. The Company matches a portion of employee contributions to the savings plan. Company contributions to the savings plan were $126 million, $110 million and $107 million and included in Cost of sales or Operating overhead expense, as applicable, for the years ended May 31, 2022, 2021 and 2020, respectively. The terms of the plan also allow for annual discretionary profit sharing contributions, as recommended by senior management and approved by the Board of Directors, to the accounts of eligible U.S. employees who work at least 1,000 hours in a year. There were no profit sharing contributions made to the plan for the fiscal years ended May 31, 2022, 2021 and 2020.

The Company also has a Long-Term Incentive Plan (LTIP) adopted by the Board of Directors and approved by shareholders in September 1997, which has been amended from time to time. The Company recognized $16 million, $78 million and $66 million of Operating overhead expense related to cash awards under the LTIP during the years ended May 31, 2022, 2021 and 2020, respectively. During the fiscal year ended May 31, 2022, under the Stock Incentive Plan, the Company granted PSUs which replaced cash-based long-term incentive awards historically granted under the Company's LTIP. Refer to Note 11 — Common Stock and Stock-Based Compensation for further information related to PSUs.

The Company allows certain highly compensated employees and non-employee directors of the Company to defer compensation under a nonqualified deferred compensation plan. A rabbi trust was established to fund the Company's nonqualified deferred compensation plan obligation. The assets in the rabbi trust of approximately $876 million and $945 million as of May 31, 2022 and 2021, respectively, primarily consist of company owned life insurance policies recorded at their cash surrender value and are classified in Deferred income taxes and other assets on the Consolidated Balance Sheets. Deferred compensation plan liabilities were $890 million and $944 million as of May 31, 2022 and 2021, respectively, and primarily classified in Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

The Company has pension plans in various countries worldwide. The pension plans are only available to local employees and are generally government mandated. The liability related to the unfunded pension liabilities of the plans was $30 million and $64 million as of May 31, 2022 and 2021, respectively, and primarily classified as non-current in Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

NOTE 14 — 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 U.S. GAAP. 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 and assessing, both at inception and on an ongoing basis, the effectiveness of the hedging relationships.

The majority of derivatives outstanding as of May 31, 2022, are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Chinese Yuan/U.S. Dollar and Japanese Yen/U.S. Dollar currency pairs. All derivatives are recognized on the Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date.

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The following tables present the fair values of derivative instruments included within the Consolidated Balance Sheets:

	DERIVATIVE
(Dollars in millions)	**BALANCE SHEET LOCATIO**
Derivatives formally designated as hedging instruments:	
Foreign exchange forwards and options	Prepaid expenses and other current asse
Foreign exchange forwards and options	Deferred income taxes and other assets
Total derivatives formally designated as hedging instruments	
Derivatives not designated as hedging instruments:	
Foreign exchange forwards and options	Prepaid expenses and other current asse
Embedded derivatives	Prepaid expenses and other current asse
Total derivatives not designated as hedging instruments	
TOTAL DERIVATIVE ASSETS	

	DERIVATIVE LI
(Dollars in millions)	**BALANCE SHEET LOCATIO**
Derivatives formally designated as hedging instruments:	
Foreign exchange forwards and options	Accrued liabiliti
Foreign exchange forwards and options	Deferred income taxes and other liabiliti
Total derivatives formally designated as hedging instruments	
Derivatives not designated as hedging instruments:	
Foreign exchange forwards and options	Accrued liabiliti
Embedded derivatives	Accrued liabiliti
Total derivatives not designated as hedging instruments	
TOTAL DERIVATIVE LIABILITIES	

The following table presents the amounts in the Consolidated Statements of Income in which the effects of cash flow hedges are recorded and the effects of cash flow hedge activity on these line items for the fiscal years ended May 31, 2022, 2021 and 2020:

(Dollars in millions)	2022 TOTAL	2022 AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY	2021 TOTAL	2021 AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY	2020 TOTAL	2020 AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY
	YEAR ENDED MAY 31,					
Revenues	$ 46,710	$ (82)	$ 44,538	$ 45	$ 37,403	$ (17)
Cost of sales	25,231	(23)	24,576	51	21,162	364
Demand creation expense	3,850	1	3,114	3	3,592	(2)
Other (income) expense, net	(181)	130	14	(47)	139	181
Interest expense (income), net	205	(7)	262	(7)	89	(7)

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The following tables present the amounts affecting the Consolidated Statements of Income for the years ended May 31, 2022, 2021 and 2020:

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS) ON DERIVATIVES(1) YEAR ENDED MAY 31, 2022	2021	2020	AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME(1) — LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME	YEAR ENDED MAY 31, 2022	2021	2020
Derivatives designated as cash flow hedges:							
Foreign exchange forwards and options	$ (39)	$ (61)	$ 28	Revenues	$ (82)	$ 45	$ (17)
Foreign exchange forwards and options	889	(563)	283	Cost of sales	(23)	51	364
Foreign exchange forwards and options	(6)	5	1	Demand creation expense	1	3	(2)
Foreign exchange forwards and options	492	(163)	90	Other (income) expense, net	130	(47)	181
Interest rate swaps(2)	—	—	—	Interest expense (income), net	(7)	(7)	(7)
Total designated cash flow hedges	**$ 1,336**	**$ (782)**	**$ 402**		**$ 19**	**$ 45**	**$ 519**

(1) *For the fiscal years ended May 31, 2022, 2021 and 2020, the amounts recorded in Other (income) expense, net as a result of the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.*

(2) *Gains and losses associated with terminated interest rate swaps, which were previously designated as cash flow hedges and recorded in Accumulated other comprehensive income (loss), will be released through Interest expense (income), net over the term of the issued debt.*

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES YEAR ENDED MAY 31, 2022	2021	2020	LOCATION OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES
Derivatives not designated as hedging instruments:				
Foreign exchange forwards and options	$ 40	$ (150)	$ 76	Other (income) expense, net
Embedded derivatives	(2)	(17)	(1)	Other (income) expense, net

CASH FLOW HEDGES

All changes in fair value of derivatives designated as cash flow hedge instruments are recorded in Accumulated other comprehensive income (loss) until Net income is affected by the variability of cash flows of the hedged transaction. Effective hedge results are classified in the Consolidated Statements of Income in the same manner as the underlying exposure. When it is no longer probable the forecasted hedged transaction will occur in the initially identified time period, hedge accounting is discontinued and the Company accounts for the associated derivative as an undesignated instrument as discussed below. Additionally, the gains and losses associated with derivatives no longer designated as cash flow hedge instruments in Accumulated other comprehensive income (loss) are recognized immediately in Other (income) expense, net, if it is probable the forecasted hedged transaction will not occur by the end of the initially identified time period or within an additional two-month period thereafter. In rare circumstances, the additional period of time may exceed two months due to extenuating circumstances related to the nature of the forecasted transaction that are outside the control or influence of the Company.

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 the Company may elect to hedge in this manner include product costs, non-functional currency denominated revenues, intercompany revenues, demand creation expenses, investments in U.S. Dollar denominated available-for-sale debt securities and certain other intercompany transactions.

Product cost foreign currency 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 products 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. NTC sales to a NIKE entity with a different functional currency result in 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 $18.5 billion as of May 31, 2022.

As of May 31, 2022, approximately $607 million of deferred net gains (net of tax) on both outstanding and matured derivatives in Accumulated other comprehensive income (loss) are 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 currently outstanding mature. As of May 31, 2022, the maximum term over which the Company hedges exposures to the variability of cash flows for its forecasted transactions was 24 months.

FAIR VALUE HEDGES

The Company has, in the past, been 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. The Company had no interest rate swaps designated as fair value hedges as of May 31, 2022.

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 are reported in Accumulated other comprehensive income (loss) along with the foreign currency translation adjustments on those investments. The Company had no outstanding net investment hedges as of May 31, 2022.

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 Consolidated Balance Sheets and/or embedded derivative contracts. These undesignated instruments are recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in Other (income) expense, net, together with the remeasurement gain or loss from the hedged balance sheet position and/or embedded derivative contract. The total notional amount of outstanding undesignated derivative instruments was $3 billion as of May 31, 2022.

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. In addition, embedded derivative contracts are created when the Company enters 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. Embedded derivative contracts are treated as foreign currency forward contracts that are bifurcated from the related contract and recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in Other (income) expense, net, through the date the foreign currency fluctuations cease to exist.

As of May 31, 2022, the total notional amount of embedded derivatives outstanding was approximately $584 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 trigger collateral requirements. As of May 31, 2022, the Company was in compliance with all credit risk-related contingent features, and no derivative instruments with such features were in a net liability position. Accordingly, the Company posted no cash collateral as a result of these contingent features. Further, as of May 31, 2022, the Company had received $486 million in cash collateral from various counterparties to its derivative contracts. The Company considers the impact of the risk of counterparty default to be immaterial.

For additional information related to the Company's derivative financial instruments and collateral, refer to Note 6 — Fair Value Measurements.

NOTE 15 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in Accumulated other comprehensive income (loss), net of tax, were as follows:

(Dollars in millions)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT(1)	CASH FLOW HEDGES	NET INVESTMENT HEDGES(1)	OTHER	TOTAL
Balance at May 31, 2021	**$ 2**	**$ (435)**	**$ 115**	**$ (62)**	**$ (380)**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications(2)	(522)	1,222	—	28	728
Reclassifications to net income of previously deferred (gains) losses(3)	—	(8)	—	(22)	(30)
Total other comprehensive income (loss)	(522)	1,214	—	6	698
Balance at May 31, 2022	**$ (520)**	**$ 779**	**$ 115**	**$ (56)**	**$ 318**

(1) The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $(114) million, $0 million, $(9) million and $(123) million, respectively.

(3) Net of tax (benefit) expense of $0 million, $11 million, $0 million, $9 million and $20 million, respectively.

(Dollars in millions)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT(1)	CASH FLOW HEDGES	NET INVESTMENT HEDGES(1)	OTHER	TOTAL
Balance at May 31, 2020	**$ (494)**	**$ 390**	**$ 115**	**$ (67)**	**$ (56)**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications(2)	499	(788)	—	(8)	(297)
Reclassifications to net income of previously deferred (gains) losses(3)	(3)	(37)	—	13	(27)
Total other comprehensive income (loss)	496	(825)	—	5	(324)
Balance at May 31, 2021	**$ 2**	**$ (435)**	**$ 115**	**$ (62)**	**$ (380)**

(1) The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $(6) million, $0 million, $(1) million and $(7) million, respectively.

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

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The following table summarizes the reclassifications from Accumulated other comprehensive income (loss) to the Consolidated Statements of Income:

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME YEAR ENDED MAY 31, 2022	2021	LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME
Gains (losses) on foreign currency translation adjustment	$ —	$ 3	Other (income) expense, net
Total before tax		3	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	**—**	**3**	
Gains (losses) on cash flow hedges:			
Foreign exchange forwards and options	$ (82)	45	Revenues
Foreign exchange forwards and options	(23)	51	Cost of sales
Foreign exchange forwards and options	1	3	Demand creation expense
Foreign exchange forwards and options	130	(47)	Other (income) expense, net
Interest rate swaps	(7)	(7)	Interest expense (income), net
Total before tax	19	45	
Tax (expense) benefit	(11)	(8)	
Gain (loss) net of tax	**8**	**37**	
Gains (losses) on other	31	(13)	Other (income) expense, net
Total before tax	31	(13)	
Tax (expense) benefit	(9)	—	
Gain (loss) net of tax	**22**	**(13)**	
Total net gain (loss) reclassified for the period	**$ 30**	**$ 27**	

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NOTE 16 — REVENUES

DISAGGREGATION OF REVENUES

The following tables present the Company's Revenues disaggregated by reportable operating segment, major product line and distribution channel:

	YEAR ENDED MAY 31, 2022								
(Dollars in millions)	**NORTH AMERICA**	**EUROPE, MIDDLE EAST & AFRICA**	**GREATER CHINA**	**ASIA PACIFIC & LATIN AMERICA**	**GLOBAL BRAND DIVISIONS**	**TOTAL NIKE BRAND**	**CONVERSE**	**CORPORATE**	**TOTAL NIKE, INC.**
Revenues by:									
Footwear	$ 12,228	$ 7,388	$ 5,416	$ 4,111	$ —	$ 29,143	$ 2,094	$ —	$ 31,237
Apparel	5,492	4,527	1,938	1,610	—	13,567	103	—	13,670
Equipment	633	564	193	234	—	1,624	26	—	1,650
Other	—	—	—	—	102	102	123	(72)	153
TOTAL REVENUES	**$ 18,353**	**$ 12,479**	**$ 7,547**	**$ 5,955**	**$ 102**	**$ 44,436**	**$ 2,346**	**$ (72)**	**$ 46,710**
Revenues by:									
Sales to Wholesale Customers	$ 9,621	$ 8,377	$ 4,081	$ 3,529	$ —	$ 25,608	$ 1,292	$ —	$ 26,900
Sales through Direct to Consumer	8,732	4,102	3,466	2,426	—	18,726	931	—	19,657
Other	—	—	—	—	102	102	123	(72)	153
TOTAL REVENUES	**$ 18,353**	**$ 12,479**	**$ 7,547**	**$ 5,955**	**$ 102**	**$ 44,436**	**$ 2,346**	**$ (72)**	**$ 46,710**

	YEAR ENDED MAY 31, 2021								
(Dollars in millions)	**NORTH AMERICA**	**EUROPE, MIDDLE EAST & AFRICA**	**GREATER CHINA**	**ASIA PACIFIC & LATIN AMERICA[1]**	**GLOBAL BRAND DIVISIONS**	**TOTAL NIKE BRAND**	**CONVERSE**	**CORPORATE**	**TOTAL NIKE, INC.**
Revenues by:									
Footwear	$ 11,644	$ 6,970	$ 5,748	$ 3,659	$ —	$ 28,021	$ 1,986	$ —	$ 30,007
Apparel	5,028	3,996	2,347	1,494	—	12,865	104	—	12,969
Equipment	507	490	195	190	—	1,382	29	—	1,411
Other	—	—	—	—	25	25	86	40	151
TOTAL REVENUES	**$ 17,179**	**$ 11,456**	**$ 8,290**	**$ 5,343**	**$ 25**	**$ 42,293**	**$ 2,205**	**$ 40**	**$ 44,538**
Revenues by:									
Sales to Wholesale Customers	$ 10,186	$ 7,812	$ 4,513	$ 3,387	$ —	$ 25,898	$ 1,353	$ —	$ 27,251
Sales through Direct to Consumer	6,993	3,644	3,777	1,956	—	16,370	766	—	17,136
Other	—	—	—	—	25	25	86	40	151
TOTAL REVENUES	**$ 17,179**	**$ 11,456**	**$ 8,290**	**$ 5,343**	**$ 25**	**$ 42,293**	**$ 2,205**	**$ 40**	**$ 44,538**

(1) Refer to Note 20 — Acquisitions and Divestitures for additional information on the transition of the Company's NIKE Brand business in Brazil to a third-party distributor.

(Dollars in millions)	YEAR ENDED MAY 31, 2020 NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA	GREATER CHINA	ASIA PACIFIC & LATIN AMERICA	GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE	CORPORATE	TOTAL NIKE, INC.
Revenues by:									
Footwear	$ 9,329	$ 5,892	$ 4,635	$ 3,449	$ —	$ 23,305	$ 1,642	$ —	$ 24,947
Apparel	4,639	3,053	1,896	1,365	—	10,953	89	—	11,042
Equipment	516	402	148	214	—	1,280	25	—	1,305
Other	—	—	—	—	30	30	90	(11)	109
TOTAL REVENUES	**$ 14,484**	**$ 9,347**	**$ 6,679**	**$ 5,028**	**$ 30**	**$ 35,568**	**$ 1,846**	**$ (11)**	**$ 37,403**
Revenues by:									
Sales to Wholesale Customers	$ 9,371	$ 6,574	$ 3,803	$ 3,408	$ —	$ 23,156	$ 1,154	$ —	$ 24,310
Sales through Direct to Consumer	5,113	2,773	2,876	1,620	—	12,382	602	—	12,984
Other	—	—	—	—	30	30	90	(11)	109
TOTAL REVENUES	**$ 14,484**	**$ 9,347**	**$ 6,679**	**$ 5,028**	**$ 30**	**$ 35,568**	**$ 1,846**	**$ (11)**	**$ 37,403**

For the fiscal years ended May 31, 2022, 2021 and 2020, Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment. Converse Other revenues were primarily attributable to licensing businesses. Corporate revenues primarily consisted 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 the Company's central foreign exchange risk management program.

As of May 31, 2022 and 2021, the Company did not have any contract assets and had an immaterial amount of contract liabilities recorded in Accrued liabilities on the Consolidated Balance Sheets.

SALES-RELATED RESERVES

As of May 31, 2022 and 2021, the Company's sales-related reserve balance, which includes returns, post-invoice sales discounts and miscellaneous claims, was $1,015 million and $1,077 million, respectively, recorded in Accrued liabilities on the Consolidated Balance Sheets. The estimated cost of inventory for expected product returns was $194 million and $269 million as of May 31, 2022 and 2021, respectively, and was recorded in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

MAJOR CUSTOMERS

No customer accounted for 10% or more of the Company's consolidated net Revenues during the fiscal years ended May 31, 2022, 2021 and 2020.

NOTE 17 — OPERATING SEGMENTS AND RELATED INFORMATION

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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands, results for the Hurley brand, prior to its divestiture in fiscal 2020, were included in North America. Refer to Note 20 — Acquisitions and Divestitures for information regarding the fiscal 2020 divestiture of the Company's wholly-owned subsidiary, Hurley, and the planned transition of NIKE Brand businesses in certain countries within APLA to third-party distributors.

The Company's NIKE Direct operations are managed within each NIKE Brand geographic operating segment. Converse is also a reportable segment for the Company and operates in one industry: the design, marketing, licensing and selling of athletic lifestyle 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 revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment. Global Brand Divisions costs represent demand creation and operating overhead expense that include product creation and design expenses centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology.

Corporate consists primarily 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. For the fiscal year ended May 31, 2020, Corporate included a non-recurring impairment charge, recognized as a result of the Company's decision to transition certain NIKE Brand businesses within APLA to a third-party distributor. This charge primarily reflected the anticipated release of associated non-cash cumulative foreign currency translation losses. For more information regarding this charge, refer to Note 20 — Acquisitions and Divestitures.

The primary financial measure used by the Company to evaluate performance of individual operating segments is earnings before interest and taxes (EBIT), which represents Net income before Interest expense (income), net and Income tax expense in the Consolidated Statements of Income.

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 to Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons, and one standard rate applies to the spring and summer selling seasons) 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 the 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.

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(Dollars in millions)	YEAR ENDED MAY 31, 2022	2021	2020
REVENUES			
North America	$ 18,353	$ 17,179	$ 14,484
Europe, Middle East & Africa	12,479	11,456	9,347
Greater China	7,547	8,290	6,679
Asia Pacific & Latin America	5,955	5,343	5,028
Global Brand Divisions	102	25	30
Total NIKE Brand	44,436	42,293	35,568
Converse	2,346	2,205	1,846
Corporate	(72)	40	(11)
TOTAL NIKE, INC. REVENUES	**$ 46,710**	**$ 44,538**	**$ 37,403**
EARNINGS BEFORE INTEREST AND TAXES			
North America	$ 5,114	$ 5,089	$ 2,899
Europe, Middle East & Africa	3,293	2,435	1,541
Greater China	2,365	3,243	2,490
Asia Pacific & Latin America	1,896	1,530	1,184
Global Brand Divisions	(4,262)	(3,656)	(3,468)
Converse	669	543	297
Corporate	(2,219)	(2,261)	(1,967)
Interest expense (income), net	205	262	89
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 6,651**	**$ 6,661**	**$ 2,887**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT			
North America	$ 146	$ 98	$ 110
Europe, Middle East & Africa	197	153	139
Greater China	78	94	28
Asia Pacific & Latin America	56	54	41
Global Brand Divisions	222	278	438
Total NIKE Brand	699	677	756
Converse	9	7	12
Corporate	103	107	356
TOTAL ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	**$ 811**	**$ 791**	**$ 1,124**
DEPRECIATION			
North America	$ 124	$ 130	$ 148
Europe, Middle East & Africa	134	136	132
Greater China	41	46	44
Asia Pacific & Latin America	42	43	46
Global Brand Divisions	220	222	214
Total NIKE Brand	561	577	584
Converse	22	26	25
Corporate	134	141	112
TOTAL DEPRECIATION	**$ 717**	**$ 744**	**$ 721**

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(Dollars in millions)	AS OF MAY 31, 2022	2021
ACCOUNTS RECEIVABLE, NET		
North America	$ 1,850	$ 1,777
Europe, Middle East & Africa	1,351	1,349
Greater China	406	288
Asia Pacific & Latin America[(1)]	664	643
Global Brand Divisions	113	128
Total NIKE Brand	4,384	4,185
Converse	230	225
Corporate	53	53
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 4,667**	**$ 4,463**
INVENTORIES		
North America	$ 4,098	$ 2,851
Europe, Middle East & Africa	1,887	1,821
Greater China	1,044	1,247
Asia Pacific & Latin America[(1)]	686	667
Global Brand Divisions	197	153
Total NIKE Brand	7,912	6,739
Converse	279	290
Corporate	229	(175)
TOTAL INVENTORIES	**$ 8,420**	**$ 6,854**
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	$ 639	$ 617
Europe, Middle East & Africa	920	982
Greater China	303	288
Asia Pacific & Latin America[(1)]	274	304
Global Brand Divisions	789	780
Total NIKE Brand	2,925	2,971
Converse	49	63
Corporate	1,817	1,870
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,791**	**$ 4,904**

(1) Excludes assets held-for-sale as of May 31, 2022 and 2021. See Note 20 — Acquisitions and Divestitures for additional information.

REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREA

After allocation of revenues for Global Brand Divisions, Converse and Corporate to geographical areas based on the location where the sales originated, revenues by geographical area are essentially the same as reported above for the NIKE Brand operating segments with the exception of the United States. Revenues derived in the United States were $18,749 million, $17,363 million and $14,625 million for the fiscal years ended May 31, 2022, 2021 and 2020, respectively.

The Company's largest concentrations of long-lived assets primarily consist of the Company's corporate headquarters, retail locations and distribution facilities in the United States and China, as well as distribution facilities in Belgium. Long-lived assets attributable to operations in these countries, which consist of property, plant and equipment, net and operating lease

ROU assets, net, were as follows:

	MAY 31,			
(Dollars in millions)	**2022**		**2021**	
United States	$	4,916	$	4,927
Belgium		646		676
China		538		518

NOTE 18 — COMMITMENTS AND CONTINGENCIES

As of May 31, 2022 and 2021, the Company had bank guarantees and letters of credit outstanding totaling $289 million and $275 million, respectively, issued primarily for real estate agreements, self-insurance programs and other general business obligations.

In connection with various contracts and agreements, the Company provides routine indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where the Company is acting as the guarantor. Currently, the Company has several such agreements in place. However, based on the Company's historical experience and the estimated probability of future loss, the Company has determined the fair value of such indemnification is not material to the Company's financial position or results of operations.

In the ordinary course of business, the Company is subject to various legal proceedings, claims and government investigations relating to its business, products and actions of its employees and representatives, including contractual and employment relationships, product liability, antitrust, customs, intellectual property and other matters. The outcome of these legal matters is inherently uncertain, and the Company cannot predict the eventual outcome of currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or consequences relating to those matters. When a loss related to a legal proceeding or claim is probable and reasonably estimable, the Company accrues its best estimate for the ultimate resolution of the matter. If one or more legal matters were to be resolved against the Company in a reporting period for amounts above management's expectations, the Company's financial position, operating results and cash flows for that reporting period could be materially adversely affected. In the opinion of management, based on its current knowledge and after consultation with counsel, the Company does not believe any currently pending legal matters will have a material adverse impact on the Company's results of operations, financial position or cash flows, except as described below.

BELGIAN CUSTOMS CLAIM

The Company has received claims for certain years from the Belgian Customs Authorities for alleged underpaid duties related to products imported beginning in fiscal 2018. The Company disputes these claims and plans to appeal. At this time, the Company is unable to estimate the range of loss and cannot predict the final outcome as it could take several years to reach a resolution on this matter. If this matter is ultimately resolved against the Company, the amounts owed, including fines, penalties and other consequences relating to the matter, could have a material adverse effect on the Company's results of operations, financial position and cash flows.

NOTE 19 — LEASES

Lease expense is recognized in Cost of sales or Operating overhead expense within the Consolidated Statements of Income, based on the underlying nature of the leased asset. For the fiscal years ended May 31, 2022, 2021 and 2020, lease expense primarily consisted of operating lease costs of $593 million, $589 million and $569 million, respectively. Lease expense also consisted of $366 million, $347 million and $337 million for fiscal years ended May 31, 2022, 2021 and 2020, respectively, primarily related to variable lease costs, which includes an immaterial amount of short-term lease costs. As of and for the fiscal years ended May 31, 2022 and 2021 and 2020, finance leases were not a material component of the Company's lease portfolio.

The undiscounted cash flows for future maturities of the Company’s operating lease liabilities and the reconciliation to the Operating lease liabilities recognized in the Company’s Consolidated Balance Sheets are as follows:

(Dollars in millions)		**AS OF MAY 31, 2022**[1]
Fiscal 2023	$	491
Fiscal 2024		543
Fiscal 2025		490
Fiscal 2026		405
Fiscal 2027		350
Thereafter		1,250
Total undiscounted future cash flows related to lease payments	$	3,529
Less interest		332
Present value of lease liabilities	$	3,197

(1) Excludes $175 million as of May 31, 2022, of future operating lease payments for lease agreements signed but not yet commenced.

The following table includes supplemental information used to calculate the present value of Operating lease liabilities:

	AS OF MAY 31,	
	2022	2021
Weighted-average remaining lease term (in years)	7.8	8.3
Weighted-average discount rate	2.3 %	2.3 %

The following table includes supplemental cash and non-cash information related to operating leases:

	YEAR ENDED MAY 31,		
(Dollars in millions)	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 589	$ 583	$ 532
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	$ 537	$ 489	$ 705 (1)

(1) Excludes the amount initially capitalized in conjunction with the adoption of Topic 842.

NOTE 20 — ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

During fiscal 2022, 2021 and 2020, the Company made multiple acquisitions focused on gaining new capabilities to fuel its Consumer Direct Offense strategy, serving consumers personally at a global scale. The impact of acquisitions, individually and in aggregate, was not considered material to the Company's Consolidated Financial Statements.

DIVESTITURES

During fiscal 2020, as a result of the Company's decision to transition its wholesale and direct to consumer operating model in certain countries within its APLA operating segment to third-party distributors, the related assets and liabilities of these entities were classified as held-for-sale within Prepaid expenses and other current assets and Accrued liabilities, respectively, on the Consolidated Balance Sheets.

During the fourth quarter of fiscal 2022, the Company entered into separate definitive agreements to sell its entities in Argentina and Uruguay as well as its entity in Chile to third-party distributors. The assets and liabilities of these entities will remain classified as held-for-sale on the Consolidated Balance Sheets until the transactions close, which is expected to occur prior to the end of the third quarter of fiscal 2023.

As of May 31, 2022, held-for-sale assets were $182 million, primarily consisting of $73 million of Accounts receivable, net and $59 million of Inventories; held-for-sale liabilities were $58 million, primarily consisting of $26 million of Accrued liabilities and $20 million of Accounts payable.

As of May 31, 2021, held-for-sale assets were $175 million, primarily consisting of $76 million of Inventories and $59 million of Accounts receivable, net; held-for-sale liabilities were $72 million, primarily consisting of $25 million of Accounts payable and $22 million of Accrued liabilities.

The Company has recognized total expected net losses of $397 million as of May 31, 2022, related to the Argentina, Uruguay and Chile transactions within Other (income) expense, net, classified within Corporate, and a corresponding allowance within Accrued liabilities on the Consolidated Balance Sheets. The initial expected loss of $405 million recognized in fiscal 2020 was largely due to the anticipated release of the cumulative net foreign currency translation losses and subsequently adjusted for changes in fair value. These losses will be reclassified from Accumulated other comprehensive income (loss) to Net income upon sale of the legal entities. At the completion of the sale of the Argentina and Uruguay entities, the Company expects to recognize future losses, in part due to changes in foreign currency exchange rates. The losses are not expected to be material to the Company's Consolidated Financial Statements. For more information see Note 6 — Fair Value Measurements.

OTHER DIVESTITURES

During fiscal 2020, the Company entered into a definitive agreement to sell substantially all of its NIKE Brand operations in Brazil and shift to a distributor operating model. During fiscal 2021, the transaction closed and the Company recognized a loss of approximately $50 million within Other (income) expense, net classified within Corporate, on the Consolidated Statements of Income. Cash proceeds received were reflected within Other investing activities on the Consolidated Statements of Cash Flows.

On October 29, 2019, the Company signed a definitive agreement to sell the assets and liabilities of its wholly-owned subsidiary brand, Hurley. The transaction closed on December 6, 2019, and the impacts of the divestiture were not considered material to the Company's Consolidated Financial Statements.

NOTE 21 — RESTRUCTURING

In fiscal 2021, the Company announced a new digitally empowered phase of its Consumer Direct Offense strategy: Consumer Direct Acceleration. During fiscal 2021, the Company substantially completed a series of leadership and operating model changes to streamline and speed up the strategic execution of the Consumer Direct Acceleration.

For the fiscal year ended May 31, 2021, the Company recognized employee termination costs of $214 million and $35 million within Operating overhead expense and Cost of sales, respectively, and made cash payments of $212 million. Additionally, the related stock-based compensation expense recorded within Operating overhead expense and Cost of sales was $41 million and $4 million, respectively, for the fiscal year ended May 31, 2021.

For the fiscal year ended May 31, 2022, the Company recognized an immaterial amount of related employee termination costs and, to a lesser extent, stock-based compensation expense.

For all periods presented these costs were classified within Corporate.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change of accountants nor any disagreements with accountants on any matter of accounting principles or practices or financial statement disclosure required to be reported under this Item.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide reasonable assurance 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 May 31, 2022.

“Management's Annual Report on Internal Control Over Financial Reporting” is included in Item 8 of this Report.

We are continuing 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 these transformation initiatives.

There have not been any 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.

ITEM 9B. OTHER INFORMATION

No disclosure is required under this item.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 of Regulation S-K regarding directors is included under “Corporate Governance — NIKE, Inc. Board of Directors” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding executive officers is included under “Information about our Executive Officers” in Item 1 of this Report. The information required by Item 406 of Regulation S-K is included under “Corporate Governance — Board Structure and Responsibilities — Code of Conduct” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K regarding the Audit & Finance Committee of the Board of Directors is included under “Corporate Governance — Board Structure and Responsibilities — Board Committees” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K regarding executive compensation is included under “Corporate Governance — Director Compensation for Fiscal 2022,” “Compensation Discussion and Analysis,” "Executive Compensation Tables," and “Stock Ownership Information — Transactions with Related Persons — Compensation Committee Interlocks and Insider Participation,” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 201(d) of Regulation S-K is included under “Executive Compensation Tables — Equity Compensation Plan Information” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 403 of Regulation S-K is included under “Stock Ownership Information — Stock Holdings of Certain Owners and Management” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is included under “Stock Ownership Information — Transactions with Related Persons” and “Corporate Governance — Individual Board Skills Matrix — Director Independence” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is included under “Audit Matters — Ratification of Appointment of Independent Registered Public Accounting Firm” in the definitive Proxy Statement for our 2022 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)	The following documents are filed as part of this report:	FORM 10-K PAGE NO.
1.	**Financial Statements:**	
	Report of Independent Registered Public Accounting Firm (PCAOB ID 238)	54
	Consolidated Statements of Income for each of the three years ended May 31, 2022, May 31, 2021 and May 31, 2020	56
	Consolidated Statements of Comprehensive Income for each of the three years ended May 31, 2022, May 31, 2021 and May 31, 2020	57
	Consolidated Balance Sheets at May 31, 2022 and May 31, 2021	58
	Consolidated Statements of Cash Flows for each of the three years ended May 31, 2022, May 31, 2021 and May 31, 2020	59
	Consolidated Statements of Shareholders' Equity for each of the three years ended May 31, 2022, May 31, 2021 and May 31, 2020	60
	Notes to Consolidated Financial Statements	61
2.	**Financial Statement Schedule:**	
	II — Valuation and Qualifying Accounts for the years ended May 31, 2022, 2021 and 2020	98
	All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.	
3.	**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	Fifth Restated Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 19, 2020).	
4.1	Restated Articles of Incorporation, as amended (see Exhibit 3.1).	
4.2	Fifth Restated Bylaws, as amended (see Exhibit 3.2).	
4.3	Indenture dated as of April 26, 2013, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed April 26, 2013).	
4.4	Second Supplemental Indenture, dated as of October 29, 2015, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 3.875% Notes due 2045 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 29, 2015).	
4.5	Third Supplemental Indenture, dated as of October 21, 2016, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.375% Notes due 2026 and form of 3.375% Notes due 2046 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 21, 2016).	
4.6	Fourth Supplemental Indenture, dated as of March 27, 2020, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.400% Notes due 2025, form of 2.750% Notes due 2027, form of 2.850% Notes due 2030, form of 3.250% Notes due 2040 and form of 3.375% Notes due 2050 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed March 27, 2020).	
4.7	Description of Registrants Securities (incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2019).	
10.1	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors under the 1990 Stock Incentive Plan (incorporated by	

10.4	Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.5	NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.6	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective April 1, 2013) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2013).*
10.7	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective June 1, 2004) (applicable to amounts deferred before January 1, 2005) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004).*
10.8	Amendment No. 1 effective January 1, 2008 to the NIKE, Inc. Deferred Compensation Plan (June 1, 2004 Restatement) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.9	NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008).*
10.10	Amended and Restated Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated July 24, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2008).*
10.11	Form of Restricted Stock Unit Agreement under the Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*
10.12	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and its executive officers (other than Mark G. Parker and John J. Donahoe II) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2020).*
10.13	Policy for Recoupment of Incentive Compensation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 20, 2010).*
10.14	NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.15	Form of Discretionary Performance Award Agreement (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2018).*
10.16	NIKE, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement filed July 25, 2017).*
10.17	Offer Letter between NIKE, Inc. and John J. Donahoe II (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.18	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and John J. Donahoe II (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.19	Form of Performance-Based Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed October 22, 2019).
10.20	Letter Agreement between NIKE, Inc. and Mark G. Parker (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.21	NIKE, Inc. Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.22	NIKE, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.23	Form of Non-Statutory Stock Option Agreement under the NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.24	Form of Restricted Stock Unit Agreement under the NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.25	NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 18, 2020)*
10.26	NIKE, Inc. Performance-Based Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 17, 2021)*
10.27	Credit Agreement, dated as of March 11, 2022, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 14, 2022).
10.28	Credit Agreement, dated as of March 11, 2022, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, and the other Banks named therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed March 14, 2022).
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (included within this Annual Report on Form 10-K).

101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File - formatted in Inline XBRL and included in Exhibit 101

* *Management contract or compensatory plan or arrangement.*

The Exhibits filed herewith do not include certain instruments with respect to long-term debt of NIKE and its subsidiaries, inasmuch as the total amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of NIKE and its subsidiaries on a consolidated basis. NIKE agrees, pursuant to Item 601(b)(4)(iii) of Regulation S-K, that it will furnish a copy of any such instrument to the SEC upon request.

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(Dollars in millions)	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS[(1)]	WRITE-OFFS, NET	BALANCE AT END OF PERIOD
Sales returns reserve					
For the fiscal year ended May 31, 2020[(2)]	$ 843	$ 2,263	$ (31)	$ (2,393)	$ 682
For the fiscal year ended May 31, 2021[(2)]	682	2,617	41	(2,745)	595
For the fiscal year ended May 31, 2022	595	2,573	(31)	(2,612)	525

(1) Amounts included in this column primarily relate to foreign currency translation.

(2) During the fourth quarter of fiscal 2022, management identified misstatements related to the amounts disclosed within Charged to Costs and Expenses and Write-offs, net. Specifically, Charged to Costs and Expenses was understated by $46 million for fiscal 2021 and $36 million for fiscal 2020 with a corresponding understatement of Write-offs, net. Additionally, during the fourth quarter of fiscal 2021, management identified misstatements related to the amounts disclosed within Charged to Costs and Expenses and Write-offs, net. Specifically, Charged to Costs and Expenses was understated by $286 million for fiscal 2020 with a corresponding understatement of Write-offs, net. The Company assessed the materiality of these misstatements on prior period financial statements in accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 99, Materiality, codified in ASC 250, Presentation of Financial Statements, and concluded these misstatements were not material to any prior period. As such, the Company has revised the amounts disclosed within Charged to Costs and Expenses and Write-offs, net for fiscal year 2021 and 2020. These misstatements did not impact the Consolidated Balance Sheets, Consolidated Statements of Income, or Consolidated Statements of Cash Flows.

ITEM 16. FORM 10-K SUMMARY

None.

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Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 033-63995, 333-63581, 333-63583, 333-68864, 333-68886, 333-71660, 333-104822, 333-117059, 333-133360, 333-164248, 333-171647, 333-173727, 333-208900 and 333-215439) and the Registration Statement on Form S-3 (No. 333-232770) of NIKE, Inc. of our report dated July 21, 2022 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 21, 2022

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By:	/s/ JOHN J. DONAHOE II **John J. Donahoe II** President and Chief Executive Officer
Date:	July 21, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
PRINCIPAL EXECUTIVE OFFICER AND DIRECTOR:		
/s/ JOHN J. DONAHOE II **John J. Donahoe II**	*President and Chief Executive Officer*	July 21, 2022
PRINCIPAL FINANCIAL OFFICER:		
/s/ MATTHEW FRIEND **Matthew Friend**	*Executive Vice President and Chief Financial Officer*	July 21, 2022
PRINCIPAL ACCOUNTING OFFICER:		
/s/ CHRIS L. ABSTON **Chris L. Abston**	*Vice President and Corporate Controller*	July 21, 2022
DIRECTORS:		
/s/ MARK G. PARKER **Mark G. Parker**	*Director, Chairman of the Board*	July 21, 2022
/s/ CATHLEEN A. BENKO **Cathleen A. Benko**	*Director*	July 21, 2022
/s/ ELIZABETH J. COMSTOCK **Elizabeth J. Comstock**	*Director*	July 21, 2022
/s/ TIMOTHY D. COOK **Timothy D. Cook**	*Director*	July 21, 2022
/s/ THASUNDA B. DUCKETT **Thasunda B. Duckett**	*Director*	July 21, 2022
/s/ ALAN B. GRAF, JR. **Alan B. Graf, Jr.**	*Director*	July 21, 2022
/s/ PETER B. HENRY **Peter B. Henry**	*Director*	July 21, 2022
/s/ TRAVIS A. KNIGHT **Travis A. Knight**	*Director*	July 21, 2022
/s/ MICHELLE A. PELUSO **Michelle A. Peluso**	*Director*	July 21, 2022
/s/ JOHN W. ROGERS, JR. **John W. Rogers, Jr.**	*Director*	July 21, 2022

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED May 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO .

Commission File No. 1-10635

nke-20210531_g1.jpg

NIKE, Inc.

(Exact name of Registrant as specified in its charter)

Oregon	**93-0584541**
(State or other jurisdiction of incorporation)	*(IRS Employer Identification No.)*

One Bowerman Drive, Beaverton, Oregon 97005-6453
(Address of principal executive offices and zip code)

(503) 671-6453
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Class B Common Stock	**NKE**	**New York Stock Exchange**
(Title of each class)	*(Trading symbol)*	*(Name of each exchange on which registered)*

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

Indicate by check mark:	YES	NO
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☑	☐
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☑
• 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.	☑	☐
• whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).	☑	☐

• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth company	☐

• if an emerging growth company, if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	☐	
• whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.	☑	
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	☐	☑

As of November 30, 2020, the aggregate market values of the Registrant's Common Stock held by non-affiliates were:

Class A	$	9,632,565,644
Class B		170,815,547,402
	$	180,448,113,046

As of July 9, 2021, the number of shares of the Registrant's Common Stock outstanding were:

Class A	305,011,252
Class B	1,276,789,972
	1,581,801,224

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on October 6, 2021, are incorporated by reference into Part III of this Report.

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NIKE, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. BUSINESS

GENERAL

NIKE, Inc. was incorporated in 1967 under the laws of the State of Oregon. As used in this report, the terms “we,” “us,” “NIKE” and the “Company” refer to NIKE, Inc. and its predecessors, subsidiaries and affiliates, collectively, unless the context indicates otherwise. Our NIKE digital commerce website is located at *www.nike.com*. On our NIKE corporate website, located at *investors.nike.com*, we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the United States Securities and Exchange Commission (the “SEC”): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended. Our definitive Proxy Statements are also posted on our corporate website. All such filings on our corporate website are available free of charge. Copies of these filings are also available on the SEC's website (*www.sec.gov*). Also available on our corporate website are the charters of the committees of our Board of Directors, as well as our corporate governance guidelines and code of ethics; copies of any of these documents will be provided in print to any shareholder who submits a request in writing to NIKE Investor Relations, One Bowerman Drive, Beaverton, Oregon 97005-6453.

Our principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world. We sell our products directly to consumers through NIKE-owned retail stores and digital platforms (which we refer to collectively as our “NIKE Direct” operations) and to retail accounts and a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. We also offer interactive consumer services and experiences through our digital platforms. Virtually all of our products are manufactured by independent contractors. Nearly all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.

PRODUCTS

We focus our NIKE Brand product offerings in six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). We also market products designed for kids, as well as for other athletic and recreational uses, such as American football, baseball, cricket, golf, lacrosse, skateboarding, tennis, volleyball, walking, wrestling and other outdoor activities. In June 2020, we announced that we will align our product creation and category organizations around a new consumer construct focused on Men’s, Women’s and Kids'. This approach is intended to allow us to create product that better meets individual consumer needs, including more specialization of our category approach, while re-aligning and simplifying our business to accelerate our largest growth opportunities.

NIKE's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. We place considerable emphasis on innovation and high-quality construction in the development and manufacturing of our products. Sportswear, the Jordan Brand and Running are currently our top-selling footwear categories, and we expect them to continue to lead in footwear sales.

We also sell sports apparel covering the above-mentioned categories, which feature the same trademarks and are sold predominantly through the same marketing and distribution channels as athletic footwear. Our sports apparel, similar to our athletic footwear products, is designed primarily for athletic use, although many of the products are worn for casual or leisure purposes, and demonstrates our commitment to innovation and high-quality construction. Sportswear, Training, Football (Soccer) and Running are currently our top-selling apparel categories, and we expect them to continue to lead in apparel sales. We often market footwear, apparel and accessories in “collections” of similar use or by category. We also market apparel with licensed college and professional team and league logos.

We sell a line of performance equipment and accessories under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, digital devices, bats, gloves, protective equipment and other equipment designed for sports activities. We also sell small amounts of various plastic products to other manufacturers through our wholly-owned subsidiary, NIKE IHM, Inc., doing business as Air Manufacturing Innovation.

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Our Jordan Brand designs, distributes and licenses athletic and casual footwear, apparel and accessories predominantly focused on basketball using the Jumpman trademark. Sales and operating results for Jordan Brand products are reported within the respective NIKE Brand geographic operating segments.

Our wholly-owned subsidiary brand, Converse, headquartered in Boston, Massachusetts, designs, distributes and licenses casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

In addition to the products we sell to our wholesale customers and directly to consumers through our NIKE Direct operations, we have also entered into license agreements that permit unaffiliated parties to manufacture and sell, using NIKE-owned trademarks, certain apparel, digital devices and applications and other equipment designed for sports activities.

We also offer interactive consumer services and experiences through our digital platforms, including fitness and activity apps; sport, fitness and wellness content; and digital services and features in retail stores that enhance the consumer experience.

SALES AND MARKETING

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third quarters. However, the mix of product sales may vary considerably as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment, as well as other macroeconomic, strategic, operating and logistics-related factors, as evidenced by the impact of the COVID-19 pandemic.

Because NIKE is a consumer products company, the relative popularity and availability of various sports and fitness activities, as well as changing design trends, affect the demand for our products. We must, therefore, respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories and influencing sports and fitness preferences through extensive marketing. Failure to respond in a timely and adequate manner could have a material adverse effect on our sales and profitability. This is a continuing risk. Refer to Item 1A. Risk Factors.

We report our NIKE Brand operations based on our internal geographic organization. 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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands. The Hurley brand results, prior to its divestiture in fiscal 2020, were included in North America. Sales through our NIKE Direct operations are managed within each geographic operating segment.

Converse is also a reportable operating segment and operates predominately in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. Converse direct to consumer operations, including digital commerce, are reported within the Converse operating segment results.

UNITED STATES MARKET

For fiscal 2021, NIKE Brand and Converse sales in the United States accounted for approximately 39% of total revenues, compared to 39% and 41% for fiscal 2020 and fiscal 2019, respectively. We sell our NIKE Brand, Jordan Brand and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops and other retail accounts. In the United States, we utilize NIKE sales offices to solicit such sales. During fiscal 2021, our three largest United States customers accounted for approximately 24% of sales in the United States.

Our NIKE Direct and Converse direct to consumer operations sell NIKE Brand, Jordan Brand and Converse products to consumers through various digital platforms. In addition, our NIKE Direct and Converse direct to consumer operations sell products through the following number of retail stores in the United States:

U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	204
NIKE Brand in-line stores (including employee-only stores)	30
Converse stores (including factory stores)	91
TOTAL	**325**

In the United States, NIKE has seven significant distribution centers. Four are located in Memphis, Tennessee, two of which are owned and two of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. One distribution center for Converse is located in

Ontario, California, which is leased. There are other smaller distribution facilities located in various parts of the United States, some of which are leased or operated by third-parties.

INTERNATIONAL MARKETS

For fiscal 2021, non-U.S. NIKE Brand and Converse sales accounted for approximately 61% of total revenues, compared to 61% and 59% for fiscal 2020 and fiscal 2019, respectively. We sell our products to retail accounts through our own NIKE Direct operations and through a mix of independent distributors, licensees and sales representatives around the world. We sell to thousands of retail accounts and ship products from 70 distribution centers outside of the United States. During fiscal 2021, NIKE's three largest customers outside of the United States accounted for approximately 15% of total non-U.S. sales.

In addition to NIKE-owned and Converse-owned digital commerce platforms in over 45 countries, our NIKE Direct and Converse direct to consumer businesses operate the following number of retail stores outside the United States:

NON-U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	618
NIKE Brand in-line stores (including employee-only stores)	46
Converse stores (including factory stores)	59
TOTAL	**723**

International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Macau, Malaysia, Mexico, the Netherlands, New Zealand, Norway, the Philippines, Poland, Portugal, Russia, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

SIGNIFICANT CUSTOMER

No customer accounted for 10% or more of our consolidated net Revenues during fiscal 2021.

PRODUCT RESEARCH, DESIGN AND DEVELOPMENT

We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while reducing waste.

In addition to our own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields, we also utilize research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists, physicians and other experts who consult with us and review certain designs, materials and concepts for product and manufacturing process improvements and compliance with product safety regulations around the world. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

As we continue to develop new technologies, we are simultaneously focused on the design of innovative products and experiences incorporating such technologies throughout our product categories and consumer applications. Using market intelligence and research, our various design teams identify opportunities to leverage new technologies in existing categories to respond to consumer preferences. The proliferation of NIKE Air, Zoom, Free, Flywire, Dri-Fit, Flyknit, Flyweave, FlyEase, ZoomX, Air Max, React and Adapt technologies, among others, typifies our dedication to designing innovative products.

MANUFACTURING

We are supplied by 191 footwear factories located in 14 countries. Virtually all of our footwear is manufactured outside of the United States by over 15 independent contract manufacturers, which often operate multiple factories. The largest single footwear factory accounted for approximately 9% of total fiscal 2021 NIKE Brand footwear production. For fiscal 2021, contract factories in Vietnam, Indonesia and China manufactured approximately 51%, 24% and 21% of total NIKE Brand footwear, respectively. We also have manufacturing agreements with independent contract manufacturers in Argentina and India to manufacture footwear for sale primarily within those countries. For fiscal 2021, four footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 61% of NIKE Brand footwear production.

We are supplied by 344 apparel factories located in 33 countries. The largest single apparel factory accounted for approximately 8% of total fiscal 2021 NIKE Brand apparel production. Virtually all of our apparel is manufactured outside of the United States by independent contract manufacturers, which often operate multiple factories. For fiscal 2021, contract factories in Vietnam, China and Cambodia produced approximately 30%, 19% and 12% of total NIKE Brand apparel, respectively. For fiscal 2021, two apparel contract manufacturers each accounted for more than 10% of apparel production, and the top five contract manufacturers in the aggregate accounted for approximately 51% of NIKE Brand apparel production.

The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and canvas, as well as polyurethane films used to make NIKE Air-Sole cushioning components. During fiscal 2021, Air Manufacturing Innovation, a wholly-owned subsidiary, with facilities near Beaverton, Oregon, in Dong Nai Province, Vietnam, and St. Charles, Missouri, as well as independent contractors in China and Vietnam, were our suppliers of materials and cushioning components used in footwear. Air Manufacturing Innovation also manufactures and sells small amounts of various other plastic products to other manufacturers. The principal materials used in our apparel products are natural and synthetic fabrics, yarns and threads (both virgin and recycled); specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow; and plastic and metal hardware. NIKE's independent contractors and suppliers buy raw materials for the manufacturing of our footwear, apparel and equipment products. Most raw materials are available and purchased by those independent contractors and suppliers in the countries where manufacturing takes place. NIKE's independent contractors and suppliers have thus far experienced little difficulty in satisfying raw material requirements for the production of our products.

Since 1972, Sojitz Corporation of America (“Sojitz America”), a large Japanese trading company and the sole owner of our redeemable preferred stock, has performed import-export financing services for us.

INTERNATIONAL OPERATIONS AND TRADE

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as the implementation of, or potential changes in, foreign and domestic trade policies, increases in import duties, anti-dumping measures, quotas, safeguard measures, trade restrictions, restrictions on the transfer of funds and, in certain parts of the world, political tensions, instability, conflicts, nationalism and terrorism. We have not, to date, been materially affected by any such risk but cannot predict the likelihood of such material effects occurring in the future.

In recent years, uncertain global and regional economic and political conditions have affected international trade and increased protectionist actions around the world. These trends are affecting many global manufacturing and service sectors, and the footwear and apparel industries, as a whole, are not immune. Companies in our industry are facing trade protectionism in many different regions, and, in nearly all cases, we are working together with industry groups to address trade issues and reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, protectionist measures have resulted in increases in the cost of our products, and additional measures, if implemented, could adversely affect sales and/or profitability for NIKE, as well as the imported footwear and apparel industry as a whole.

We monitor protectionist trends and developments throughout the world that may materially impact our industry, and we engage in administrative and judicial processes to mitigate trade restrictions. We are actively monitoring actions that may result in additional anti-dumping measures and could affect our industry. We are also monitoring for and advocating against other impediments that may limit or delay customs clearance for imports of footwear, apparel and equipment. NIKE also advocates for trade liberalization for footwear and apparel in a number of regional and bilateral free trade agreements. Changes in, and responses to, U.S. trade policies, including the imposition of tariffs or penalties on imported goods or retaliatory measures by other countries, could negatively affect U.S. corporations, including NIKE, with business operations and/or consumer markets in those countries, which could also make it necessary for us to change the way we conduct business, either of which may have an adverse effect on our business, financial condition or our results of operations. In addition, with respect to proposed trade restrictions, we work with a broad coalition of global businesses and trade associations representing a wide variety of sectors to help ensure that any legislation enacted and implemented (i) addresses legitimate and core concerns, (ii) is consistent with international trade rules and (iii) reflects and considers domestic economies and the important role they may play in the global economic community.

Where trade protection measures are implemented, we believe we have the ability to develop, over a period of time, adequate alternative sources of supply for the products obtained from our present suppliers. If events prevented us from acquiring products from our suppliers in a particular country, our operations could be temporarily disrupted and we could experience an adverse financial impact. However, we believe we could abate any such disruption, and that much of the adverse impact on supply would, therefore, be of a short-term nature, although alternate sources of supply might not be as cost-effective and could have an ongoing adverse impact on profitability.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or "FCPA", and other anti-bribery laws applicable to our operations. We source a significant portion of our products from, and have important consumer markets, outside of the United States, and we have an ethics and compliance program to address compliance with the FCPA and similar laws by us, our employees, agents, suppliers and other partners.

COMPETITION

The athletic footwear, apparel and equipment industry is highly competitive on a worldwide basis. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment, including adidas, Anta, ASICS, Li Ning, lululemon athletica, Puma, Under Armour and V.F. Corporation, among others. The intense competition and the rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment constitute significant risk factors in our operations. Refer to Item 1A. Risk Factors for additional information.

NIKE is the largest seller of athletic footwear and apparel in the world. Important aspects of competition in this industry are:

- Product attributes such as quality; performance and reliability; new product style, design, innovation and development; as well as consumer price/value.
- Consumer connection, engagement and affinity for brands and products, developed through marketing, promotion and digital experiences; social media interaction; customer support and service; identification with prominent and influential athletes, influencers, public figures, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics.
- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and on digital platforms.

We believe that we are competitive in all of these areas.

TRADEMARKS AND PATENTS

We believe that our intellectual property rights are important to our brand, our success and our competitive position. We strategically pursue available protections of these rights and vigorously protect them against third-party theft and infringement.

We use trademarks on nearly all of our products and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and the Company, and in distinguishing our goods from the goods of others. We consider our NIKE and Swoosh Design trademarks to be among our most valuable assets and we have registered these trademarks in almost 170 jurisdictions worldwide. In addition, we own many other trademarks that we use in marketing our products. We own common law rights in the trade dress of several significant shoe designs and elements. For certain trade dress, we have sought and obtained trademark registrations.

We have copyright protection in our design, graphics and other original works. When appropriate, we also obtain registered copyrights.

We file for, own and maintain many U.S. and foreign utility and design patents protecting components, technologies, materials, manufacturing techniques, features, functionality, and industrial designs used in and for the manufacture of various athletic and leisure footwear and apparel, athletic equipment and digital devices and related software applications. These patents expire at various times.

We believe our success depends upon our capabilities in areas such as design, research and development, production and marketing and is supported by our intellectual property rights, such as trademarks, patents and trade secrets, among others.

We have followed a policy of applying for and registering intellectual property rights in the United States and select foreign countries on trademarks, inventions, innovations and designs that we deem valuable. We also continue to vigorously protect our intellectual property, including trademarks, patents and trade secrets against third-party infringement.

HUMAN CAPITAL RESOURCES

At NIKE, we consider the strength and effective management of our workforce to be essential to the ongoing success of our business. We believe that it is important to attract, develop and retain a diverse and engaged workforce at all levels of our business and that such a workforce fosters creativity and accelerates innovation. We are focused on building an increasingly diverse talent pipeline that reflects our consumers, athletes and the communities we serve.

CULTURE

Each employee shapes NIKE's culture through behaviors and practices. This starts with our Maxims, which represent our core values and, along with our Code of Conduct, feature the fundamental behaviors that help anchor, inform and guide us and apply to all employees. Our mission is to bring inspiration and innovation to every athlete in the world, which includes the belief that if you have a body, you are an athlete. We aim to do this by creating groundbreaking sport innovations, making our products more sustainably, building a creative and diverse global team and making a positive impact in communities where we live and work. Our mission is aligned with our deep commitment to maintaining an environment where all NIKE employees have the opportunity to reach their full potential, to connect to our brands and to shape the culture in which they work. We believe providing for growth and retention of our employees is essential in fostering such a culture and are dedicated to giving access to training programs and career development opportunities, including trainings on NIKE's values, history and business, trainings on developing leadership skills at all levels, tools and resources for managers and qualified tuition reimbursement opportunities.

As part of our commitment to empowering our employees to help shape our culture, we source employee feedback through our Engagement Survey program. The program provides every employee throughout the globe an opportunity to provide confidential feedback on key areas known to drive employee engagement, including their satisfaction with their managers, their work and the Company generally. The program also measures our employees' emotional commitment to NIKE as well as NIKE's culture of diversity, equity and inclusion. NIKE also provides multiple points of contact for employees to speak up if they experience something that does not align with our values or otherwise violates our workplace policies, even if they are uncertain what they observed or heard is a violation of company policy.

As part of our commitment to make a positive impact on our communities, we have maintained a goal of investing 1.5% of our prior fiscal year's pre-tax income into global communities, with an emphasis on inspiring kids to be active through play and sport. We increased that annual goal to 2% for fiscal 2022 forward. Our community investments are an important part of our culture in that we also support employees in giving back to community organizations through donations and volunteering, which are matched by the NIKE Foundation where eligible.

EMPLOYEE BASE

As of May 31, 2021, we had approximately 73,300 employees worldwide, including retail and part-time employees. We also utilize independent contractors and temporary personnel to supplement our workforce.

None of our employees are represented by a union, except for certain employees in the APLA geography, where local law requires those employees to be represented by a trade union. Also, in some countries outside of the United States, local laws require employee representation by works councils (which may be entitled to information and consultation on certain Company decisions) or by organizations similar to a union. In certain European countries, we are required by local law to enter into, and/or comply with, industry-wide or national collective bargaining agreements. NIKE has never experienced a material interruption of operations due to labor disagreements.

DIVERSITY, EQUITY AND INCLUSION (DE&I)

DE&I is a strategic priority for NIKE and we are committed to having an increasingly diverse team and culture. We aim to foster an inclusive workplace through recruitment, development and retention of diverse talent with the goal of expanding representation across all dimensions of diversity over the long term. In fiscal 2021, we elevated our DE&I team to sit at the heart of NIKE's People and Culture Strategy and combined our Talent and Diversity & Inclusion teams under a single leader. We also announced certain targets for the Company to work toward by fiscal 2025, including increasing representation of women in our global corporate workforce and leadership positions, as well as increasing representation of U.S. racial and ethnic minorities in our U.S. corporate workforce and at the Director level and above.

We have enhanced our efforts to recruit diverse talent through our traditional channels and launched new initiatives, such as partnerships with athletes and sports-related organizations to create apprenticeship programs and new partnerships with organizations, colleges and universities that serve diverse populations. Additionally, we are prioritizing DE&I education so that all NIKE employees and leaders have the cultural awareness and understanding to build diverse and inclusive teams. We also have Employee Networks, collectively known as NikeUNITED, representing various employee groups.

Our DE&I focus extends beyond our workforce and includes our communities, which we support in a number of ways. We have committed to investments through both the NIKE and Jordan Brands that aim to address racial inequality and improve diversity and representation in our communities. We also are leveraging our global scale to accelerate business diversity, including investing in business training programs for women and increasing the proportion of services supplied by minority-owned businesses.

COMPENSATION AND BENEFITS

NIKE's total rewards are intended to be competitive and equitable, meet the diverse needs of our global teammates and reinforce our values. We are committed to providing comprehensive, competitive and equitable pay and benefits to our employees, and we have invested, and aim to continue to invest, in our employees through growth and development and well-being initiatives. Our initiatives in this area include:

- We are committed to competitive pay and to reviewing our pay and promotion practices annually.
- We have an annual company bonus plan and a retail-focused bonus plan applicable to all eligible employees. Both programs are focused on rewarding employees for company performance, which we believe reinforces our culture and rewards behaviors that support collaboration and teamwork.
- We provide comprehensive family care benefits in the U.S. and globally where practicable.
- Our Military Leave benefit provides up to 12 weeks of paid time off every 12 months, and we enhanced our Military Leave benefit for employees called up to serve as part of the U.S. COVID-19 response.
- We offer free access to our Sport Centers at our World Headquarters (WHQ) for our full-time employees and North America store employees.
- We provide employees free access to mindfulness and meditation resources, including membership to Headspace as well as live classes through our Sport Centers.
- Our global Employee Assistance Program (EAP) provides free and confidential counseling to all global employees and their families.
- As part of our continued commitment to support our teammates through pay and benefits, we introduced the following new and enhanced employee programs in fiscal 2021:
    - We enhanced our family care program through additional leaves, backup care and child/elder care assistance, and we introduced an income-based childcare subsidy, expanding childcare support to employees beyond those at WHQ.
    - We enhanced U.S. mental health care coverage.
    - We updated our transgender healthcare coverage to provide employees covered on the U.S. Health Plan access to both restorative services and personalized care.

COVID-19 RESPONSE

Since the start of the COVID-19 pandemic, NIKE has been, and continues to be, committed to supporting our employees and communities. Some of the ways NIKE responded during the pandemic to support employees include:

- Throughout the pandemic NIKE has provided pay continuity for our retail, Air Manufacturing Innovation and distribution center employees—employees who were particularly affected by closures and reduced hours in fiscal 2020 and fiscal 2021. We have also taken precautions to provide a safe working environment, encouraging and supporting work-from-home whenever possible and instituting protective policies and procedures for when remote work is not possible.
- We provided a two-to-one match for all employee donations to community organizations providing COVID relief and support anywhere in the world.
- We offer two weeks of paid COVID-19 sick leave for all employees, in addition to existing paid time off benefits and legally mandated sick leave programs, which covers physical health as well as mental and emotional well-being and care for a family member. We also provide the option for employees to utilize up to two weeks of paid time off in advance of accrued balances, if needed.
- As part of our holistic approach to support our employees in their wellness journey during quarantine mandates, we offered NTC Premium, the NIKE Training Club's subscription-based service, for free to our employees globally.
- In addition to our existing EAP, we enhanced mental healthcare to include virtual care, access to insomnia and anxiety apps and increased EAP support.
- We also supported certain eligible employees who work from home due to COVID-19 health and safety measures by providing them with select technology and ergonomic products through a NIKE-exclusive portal.

Additional information related to our human capital strategy can be found in our FY20 NIKE, Inc. Impact Report, which is available on the Purpose section of our website. Information contained on or accessible through our websites is not incorporated into, and does not form a part of, this Annual Report or any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The executive officers of NIKE, Inc. as of July 20, 2021, are as follows:

nke-20210531_g2.jpg	***Mark G. Parker***, Executive Chairman — Mr. Parker, 65, is Executive Chairman of the Board of Directors and served as President and Chief Executive Officer from 2006 - January 2020. He has been employed by NIKE since 1979 with primary responsibilities in product research, design and development, marketing and brand management. Mr. Parker was appointed divisional Vice President in charge of product development in 1987, corporate Vice President in 1989, General Manager in 1993, Vice President of Global Footwear in 1998 and President of the NIKE Brand in 2001.
nke-20210531_g3.jpg	***John J. Donahoe II***, President and Chief Executive Officer — Mr. Donahoe, 61, was appointed President and Chief Executive Officer in January 2020 and has been a director since 2014. He brings expertise in digital commerce, technology and global strategy. He previously served as President and Chief Executive Officer at ServiceNow, Inc. Prior to joining ServiceNow, Inc., he served as President and Chief Executive Officer of eBay, Inc. He also held leadership roles at Bain & Company for two decades.
nke-20210531_g4.jpg	***Andrew Campion***, Chief Operating Officer — Mr. Campion, 49, joined NIKE in 2007 as Vice President of Global Planning and Development, leading strategic and financial planning. He was appointed Chief Financial Officer of the NIKE Brand in 2010, responsible for leading all aspects of financial management for the Company's flagship brand. In 2014, he was appointed Senior Vice President, Strategy, Finance and Investor Relations. Mr. Campion assumed the role of Executive Vice President and Chief Financial Officer in August 2015. In April 2020, he was appointed Chief Operating Officer and leads NIKE's global technology and digital transformation, demand and supply management, manufacturing, distribution and logistics, sustainability, workplace design and connectivity, and procurement. Prior to joining NIKE, he held leadership roles in strategic planning, mergers and acquisitions, financial planning and analysis, operations and planning, investor relations and tax at The Walt Disney Company.
nke-20210531_g5.jpg	***Matthew Friend***, Executive Vice President and Chief Financial Officer — Mr. Friend, 43, joined NIKE in 2009 as Senior Director of Corporate Strategy and Development, and was appointed Chief Financial Officer of Emerging Markets in 2011. In 2014, Mr. Friend was appointed Chief Financial Officer of Global Categories, Product and Functions, and was subsequently appointed Chief Financial Officer of the NIKE Brand in 2016. He was also appointed Vice President of Investor Relations in 2019. Mr. Friend was appointed as Executive Vice President and Chief Financial Officer of NIKE, Inc. in April 2020. Prior to joining NIKE, he worked in the financial industry including roles as VP of investment banking and mergers and acquisitions at Goldman Sachs and Morgan Stanley.
nke-20210531_g6.jpg	***Hilary K. Krane***, Executive Vice President, Chief Administrative Officer and General Counsel — Ms. Krane, 57, joined NIKE as Vice President and General Counsel in 2010. In 2011, her responsibilities expanded, and she became Vice President, General Counsel and Corporate Affairs. Ms. Krane was appointed Executive Vice President, Chief Administrative Officer and General Counsel in 2013. Prior to joining NIKE, Ms. Krane was General Counsel and Senior Vice President for Corporate Affairs at Levi Strauss & Co. from 2006 to 2010. From 1996 to 2006, she was a Partner and Assistant General Counsel at PricewaterhouseCoopers LLP.
nke-20210531_g7.jpg	***Monique S. Matheson***, Executive Vice President, Global Human Resources — Ms. Matheson, 54, joined NIKE in 1998, with primary responsibilities in the human resources function. She was appointed as Vice President and Senior Business Partner in 2011 and Vice President, Chief Talent and Diversity Officer in 2012. Ms. Matheson was appointed Executive Vice President, Global Human Resources in 2017.
nke-20210531_g8.jpg	***Heidi O'Neill***, President of Consumer and Marketplace — Ms. O'Neill, 56, joined NIKE in 1998, and held a variety of leadership roles, including President of NIKE Direct, where she was responsible for NIKE's connection to its consumer globally through the Company's retail and digital-commerce business. She also led NIKE's women's business for seven years, growing it into a multi-billion dollar business, and leading the Company's North America apparel business as VP/GM. Ms. O'Neill was appointed as President of Consumer and Marketplace in April 2020 and is responsible for NIKE's Direct business, including all stores, e-commerce and apps globally.

ITEM 1A. RISK FACTORS

Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historic 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 SEC, 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 SEC, including reports filed on Forms 8-K, 10-Q and 10-K, and include, among others, the following: health epidemics, pandemics and similar outbreaks, including the COVID-19 pandemic; international, national and local political, civil, economic and market conditions; the size and growth of the overall athletic or leisure footwear, apparel and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic or leisure 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 technology 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 orders may not be indicative of future revenues due to changes in shipment timing, the changing mix of orders with shorter lead times, 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, including without limitation, through social media or in connection with brand damaging events; 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 of the United States, including, without limitation, exchange rate fluctuations, inflation, import duties, tariffs, quotas, political and economic instability and terrorism; the potential impact of new laws, regulations or policy, including, without limitation, tariffs, import/ export, trade, wage and hour or labor and immigration regulations or policies; changes in government regulations; the impact of, including business and legal developments relating to, climate change and natural disasters; litigation, regulatory proceedings, sanctions or any other claims asserted against NIKE; the ability to attract and retain qualified employees, and any negative public perception with respect to key personnel or our corporate culture, values or purpose; the effects of NIKE's decision to invest in or divest of businesses or capabilities and other factors referenced or incorporated by reference in this report and other reports.

Risk Factors

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 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.

Economic and Industry Risks

Our financial condition and results of operations have been, and could in the future be, adversely affected by the coronavirus pandemic.

A novel strain of coronavirus (COVID-19) was first identified in Wuhan, China in December 2019, and subsequently declared a pandemic by the World Health Organization. To date, this pandemic and preventative measures taken to contain or mitigate the pandemic have caused, and may in the future cause, business slowdown or shutdown in affected areas and significant disruption in the financial markets, both globally and in the United States. These events have led to and could again lead to a decline in discretionary spending by consumers, and in turn materially impact, our business, sales, financial condition and results of operations. We cannot predict whether, and to what degree, our sales, operations and financial results could in the future be affected by the pandemic and preventative measures. Risks presented by the COVID-19 pandemic include, but are not limited to:

- Deterioration in economic conditions in the United States and globally;
- Reduced consumer demand for our products if consumers seek to reduce or delay discretionary spending in response to the impacts of COVID-19, including as a result of a rise in unemployment rates and diminished consumer confidence;
- Cancellation or postponement of sports seasons and sporting events in multiple countries, including in the United States, and bans on large public gatherings, which have reduced consumer spending on our products and could impact the effectiveness of our arrangements with key endorsers;
- Decreased retail traffic as a result of store closures, reduced operating hours, social distancing restrictions and/or changes in consumer behavior;
- The risk that any safety protocols in NIKE-owned or affiliated facilities, including our offices, will not be effective or not be perceived as effective, or that any virus-related illnesses will be linked or alleged to be linked to such facilities, whether accurate or not;
- Incremental costs resulting from the adoption of preventative measures and compliance with regulatory requirements, including providing facial coverings and hand sanitizer, rearranging operations to follow social distancing protocols, conducting temperature checks, COVID-19 testing and undertaking regular and thorough disinfecting of surfaces;
- Disruption to our distribution centers and our third-party manufacturing partners and other vendors, including through the effects of facility closures, reductions in operating hours, labor shortages, and real time changes in operating procedures, including for additional cleaning and disinfection procedures;
- Bankruptcies or other financial difficulties facing our wholesale customers, which could cause them to be unable to make or delay making payments to us, or result in cancellation or reduction of their orders;
- Operational risk, including but not limited to cybersecurity risks, as a result of continued workforce remote work arrangements, and restrictions on employee travel;
- Impacts to our distribution and logistics providers' ability to operate or increases in their operating costs. These supply chain effects have had an adverse effect on our ability to meet consumer demand, including digital demand, and have in the past resulted in and could in the future result in an increase in our costs of production and distribution, including increased freight and logistics costs and other expenses; and
- Significant disruption of and volatility in global financial markets, which could have a negative impact on our ability to access capital in the future.

We continue to monitor the latest developments regarding the pandemic and have made certain assumptions regarding the pandemic for purposes of our operating, financial and tax planning projections, including assumptions regarding the duration and severity of the pandemic and the global macroeconomic impacts of the pandemic. However, we are unable to accurately predict the extent of the impact of the pandemic on our business, operations and financial condition due to the uncertainty of future developments. In particular, we believe the ultimate impacts on our business, results of operations, cash flows and financial condition will depend on, among other things, the further spread and duration of COVID-19, the requirements to take action to help limit the spread of the illness, the availability, widespread distribution and acceptance, as well as the safety and efficacy of vaccines for COVID-19 and the economic impacts of the pandemic. Even in those regions where we have experienced business recovery, should those regions fail to fully contain COVID-19 or suffer a COVID-19 relapse, those markets may not recover as quickly or at all, which could have a material adverse effect on our business and results of operations. The pandemic may also affect our business, operations or financial condition in a manner that is not presently known to us or that we currently do not consider to present significant risks.

In addition, the impact of COVID-19 may also exacerbate other risks discussed in this Item 1A. Risk Factors, any of which could have a material effect on us.

Global economic conditions could have a material adverse effect on our business, operating results and financial condition.

The uncertain state of the global economy continues to impact businesses around the world. If global economic and financial market conditions deteriorate, the following factors could have a material adverse effect on our business, operating results and financial condition:

- Our sales are impacted by discretionary spending by consumers. Declines in consumer spending have in the past and in the future may result in reduced demand for our products, increased inventories, reduced orders from retailers for our products, order cancellations, lower revenues, higher discounts and lower gross margins.
- In the future, we may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so.
- We conduct transactions in various currencies, which creates exposure to fluctuations in foreign currency exchange rates relative to the U.S. Dollar. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies could have a significant impact on our reported operating results and financial condition.
- Continued volatility in the availability and prices for commodities and raw materials we use in our products and in our supply chain (such as cotton or petroleum derivatives) could have a material adverse effect on our costs, gross margins and profitability.
- If retailers of our products experience declining revenues or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, late retailer payments, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense.
- If retailers of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could negatively impact the sale of our products to consumers. If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products.

Our products, services and experiences face intense competition.

NIKE is a consumer products company and the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products, services and experiences. The athletic footwear, apparel and equipment industry is highly competitive both in the United States and worldwide. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies, private labels and large companies that have diversified lines of athletic and leisure footwear, apparel and equipment. We also compete with other companies for the production capacity of independent manufacturers that produce our products. Our NIKE Direct operations, both through our digital commerce operations and retail stores, also compete with multi-brand retailers, which sell our products through their digital platforms and physical stores, and with digital commerce platforms. In addition, we compete with respect to the digital services and experiences we are able to offer our consumers, including fitness and activity apps; sport, fitness and wellness content and services; and digital services and features in retail stores that enhance the consumer experience.

Product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, customer service, digital commerce platforms, digital services and experiences and social media presence are areas of intense competition. These, in addition to ongoing rapid changes in technology, a reduction in barriers to the creation of new footwear and apparel companies and consumer preferences in the markets for athletic and leisure footwear, apparel, and equipment, services and experiences, constitute significant risk factors in our operations. In addition, the competitive nature of retail, including shifts in the ways in which consumers shop, and the continued proliferation of digital commerce, constitutes a risk factor implicating our NIKE Direct and wholesale operations. If we do not adequately and timely anticipate and respond to our competitors, our costs may increase, demand for our products may decline, possibly significantly, or we may need to reduce wholesale or suggested retail prices for our products.

Economic factors beyond our control, and changes in the global economic environment, including fluctuations in inflation and currency exchange rates, could result in lower revenues, higher costs and decreased margins and earnings.

A majority of our products are manufactured and sold outside of the United States, and we conduct purchase and sale transactions in various currencies, which creates exposure to the volatility of global economic conditions, including fluctuations in inflation and foreign currency exchange rates. Additionally, there has been, and may continue to be, volatility in currency exchange rates as a result of the United Kingdom's exit from the European Union, commonly referred to as “Brexit” or new or proposed U.S. policy changes that impact the U.S. Dollar value relative to other international currencies. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into U.S. Dollars for consolidated financial reporting, as weakening of foreign currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations have adversely affected and could continue to have an adverse effect on our results of operations and financial condition.

We may hedge certain foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger U.S. Dollar or other trading currency, but they also reduce the positive impact of a weaker U.S. Dollar or other trading currency. Our future financial results could be significantly affected by the value of the U.S. Dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

We may be adversely affected by the financial health of our customers.

We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of our products, we offer certain customers the opportunity to place orders five to six months ahead of delivery under our futures ordering program. These advance orders may be canceled under certain conditions, and the risk of cancellation may increase when dealing with financially unstable retailers or retailers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties up to and including bankruptcies, which have had an adverse effect on our sales, our ability to collect on receivables and our financial condition. When the retail economy weakens or as consumer behavior shifts, retailers may be more cautious with orders. A slowing or changing economy in our key markets could adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operations and financial condition. In addition, product sales are dependent in part on high quality merchandising and an appealing retail environment to attract consumers, which requires continuing investments by retailers. Retailers that experience financial difficulties may fail to make such investments or delay them, resulting in lower sales and orders for our products. The ongoing financial uncertainty surrounding COVID-19, particularly for retailers, could also have an effect on our sales, our ability to collect on receivables and our financial condition.

Extreme weather conditions and natural disasters could negatively impact our operating results and financial condition.

Extreme weather conditions in the areas in which our retail stores, suppliers, manufacturers, customers, distribution centers, offices, headquarters and vendors are located could adversely affect our operating results and financial condition. Moreover, natural disasters such as earthquakes, hurricanes, wildfires and tsunamis, whether occurring in the United States or abroad, and their related consequences and effects, including energy shortages and public health issues, have in the past temporarily disrupted, and could in the future disrupt, our operations, the operations of our vendors, manufacturers and other suppliers or have in the past resulted in, and in the future could result in, economic instability that may negatively impact our operating results and financial condition. In particular, if a natural disaster or severe weather event were to occur in an area in which we or our suppliers, manufacturers, customers, distribution centers and vendors are located, our continued success would depend, in part, on the safety and availability of the relevant personnel and facilities and proper functioning of our or third parties' computer, network, telecommunication and other systems and operations. In addition, a natural disaster or severe weather event could negatively impact retail traffic to our stores or stores that carry our products and could have an adverse impact on consumer spending, any of which could in turn result in negative point-of-sale trends for our merchandise. Further, climate change may increase both the frequency and severity of extreme weather conditions and natural disasters, which may affect our business operations, either in a particular region or globally, as well as the activities of our third-party vendors and other suppliers, manufacturers and customers. In addition, the physical changes prompted by climate change could result in changes in regulations or consumer preferences, which could in turn affect our business, operating results and financial condition. We believe the diversity of locations in which we operate, our operational size, disaster recovery and business continuity planning and our information technology systems and networks, including the Internet and third-party services ("Information Technology Systems") position us well, but may not be sufficient for all or for concurrent eventualities. If we were to experience a local or regional disaster or other business continuity event or concurrent events, we could still experience operational challenges, in particular depending upon how a local or regional event may affect our human capital across our operations or with regard to particular aspects of our operations, such as key executive officers or personnel. For example, our World Headquarters are located in an active seismic zone, which is at a higher risk for earthquakes and the related consequences or effects. Further, if we are unable to find alternative suppliers, replace capacity at key manufacturing or distribution locations or quickly repair damage to our Information Technology Systems or supply systems, we could be late in delivering, or be unable to deliver, products to our customers. These events could result in reputational damage, lost sales, cancellation charges or markdowns, all of which could have an adverse effect on our business, results of operations and financial condition.

Business and Operational Risks

Failure to maintain our reputation, brand image and culture could negatively impact our business.

Our iconic brands have worldwide recognition, and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining, promoting and growing our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, product innovation and product quality. Our commitment to product innovation and quality and our continuing investment in design (including materials) and marketing may not have the desired impact on our brand image and reputation. In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and digital dissemination of advertising campaigns on our digital platforms and through our digital experiences. We could be adversely impacted if we fail to achieve any of these objectives.

Our brand value also depends on our ability to maintain a positive consumer perception of our corporate integrity, purpose and brand culture. Negative claims or publicity involving us, our culture and values, our products, services and experiences, consumer data, or any of our key employees, endorsers, sponsors or suppliers could seriously damage our reputation and brand image, regardless of whether such claims are accurate. For example, while we require our suppliers of our products to operate their business in compliance with applicable laws and regulations, we do not control their practices. Negative publicity relating to a violation or an alleged violation of policies or laws by such suppliers could damage our brand image and diminish consumer trust in our brand. Further, our reputation and brand image could be damaged as a result of our support of, association with or lack of support or disapproval of certain social causes, as well as any decisions we make to continue to conduct, or change, certain of our activities in response to such considerations. Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Adverse publicity about regulatory or legal action against us, or by us, could also damage our reputation and brand image, undermine consumer confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. If the reputation, culture or image of any of our brands is tarnished or if we receive negative publicity, then our sales, financial condition and results of operations could be materially and adversely affected.

Our business is affected by seasonality, which could result in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third fiscal quarters. However, the mix of product sales may vary considerably from time to time or in the future as a result of strategic shifts in our business, changes in COVID-19 related cancellations or postponements and seasonal or geographic demand for particular types of footwear, apparel and equipment and in connection with the timing, cancellation or postponement of significant sporting events, such as the NBA Finals, Olympics or the World Cup, among others. In addition, our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including economic conditions, changes in consumer preferences, weather conditions, outbreaks of disease, social or political unrest, availability of import quotas, transportation disruptions and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of additional factors that are beyond our control, including manufacturing and transportation costs, shifts in product sales mix and geographic sales trends, all of which we expect to continue. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our revenues and profits.

Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. However, lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, and influencing sports and fitness preferences through extensive marketing, we could experience lower sales, excess inventories or lower profit margins, any of which could have an adverse effect on our results of operations and financial condition. In addition, we market our products globally through a diverse spectrum of advertising and promotional programs and campaigns, including social media, mobile applications and online advertising. If we do not successfully market our products or if advertising and promotional costs increase, these factors could have an adverse effect on our business, financial condition and results of operations.

We rely on technical innovation and high-quality products to compete in the market for our products.

Technical innovation and quality control in the design and manufacturing processes of footwear, apparel and equipment is essential to the commercial success of our products. Research and development play a key role in technical innovation. We rely upon specialists in the fields of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields, as well as research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts to develop and test cutting-edge performance products. While we strive to produce products that help to enhance athletic performance and reduce injury and maximize comfort, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems and loss of consumer confidence.

Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.

We establish relationships with professional athletes, sports teams and leagues, as well as other public figures, including artists, designers and influencers, to develop, evaluate and promote our products, as well as establish product authenticity with consumers. However, as competition in our industry has increased, the costs associated with establishing and retaining such sponsorships and other relationships have increased. If we are unable to maintain our current associations with professional athletes, sports teams and leagues, or other public figures, or to do so at a reasonable cost, we could lose the high visibility or on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brands, net revenues, expenses and profitability could be harmed.

Furthermore, if certain endorsers were to stop using our products contrary to their endorsement agreements, our business could be adversely affected. In addition, actions taken or statements made by athletes, teams or leagues, or other endorsers, associated with our products or brand that harm the reputations of those athletes, teams or leagues, or endorsers, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition. In addition, poor performance by our endorsers, a failure to continue to correctly identify promising athletes, public figures or sports organizations, to use and endorse our products and brand or a failure to enter into cost-effective endorsement arrangements with prominent athletes, public figures and sports organizations could adversely affect our brand, sales and profitability.

Failure to accurately forecast consumer demand could lead to excess inventories or inventory shortages, which could result in decreased operating margins, reduced cash flows and harm to our business.

To meet anticipated demand for our products, we purchase products from manufacturers outside of our futures ordering program and in advance of customer orders, which we hold in inventory and resell to customers. There is a risk we may be unable to sell excess products ordered from manufacturers. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have an adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages could delay shipments to customers, negatively impact retailer, distributor and consumer relationships and diminish brand loyalty. The difficulty in forecasting demand also makes it difficult to estimate our future results of operations, financial condition and cash flows from period to period. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income, and we are unlikely to forecast such effects with any certainty in advance.

Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

Our NIKE Direct operations, including our retail stores and digital platforms, have required and will continue to require significant investment. Our NIKE Direct stores have required and will continue to require substantial fixed investment in equipment and leasehold improvements and personnel. We have entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and marketing activities and to integrate with our digital platforms. Because of their unique design and technological elements, locations and size, these stores require substantially more investment than other stores. Due to the high fixed-cost structure associated with our NIKE Direct retail stores, a decline in sales, a shift in consumer behavior away from brick-and-mortar retail, or the closure, temporary or otherwise, or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and employee-related costs.

Many factors unique to retail operations, some of which are beyond our control, pose risks and uncertainties. Risks include, but are not limited to: credit card fraud; mismanagement of existing retail channel partners; and inability to manage costs associated with store construction and operation.

In addition, we have made significant investments in digital technologies and information systems for the digital aspect of our NIKE Direct operations, and our digital offerings will require continued investment in the development and upgrading of our technology platforms. In order to deliver high-quality digital experiences, our digital platforms must be designed effectively and work well with a range of other technologies, systems, networks, and standards that we do not control. We may not be successful in developing platforms that operate effectively with these technologies, systems, networks or standards. A growing portion of consumers access our NIKE Direct digital platforms, but in the event that it is more difficult for consumers to access and use our digital platforms, consumers find that our digital platforms do not effectively meet their needs or expectations or consumers choose not to access or use our digital platforms or use devices that do not offer access to our platforms, the success of our NIKE Direct operations could be adversely impacted. Our competitors may develop, or have already developed, digital experiences, features, content, services or technologies that are similar to ours or that achieve greater acceptance.

We may not realize a satisfactory return on our investment in our NIKE Direct operations and management's attention from our other business opportunities could be diverted, which could have an adverse effect on our business, financial condition or results of operations.

If the technology-based systems that give our consumers the ability to shop or interact with us online do not function effectively, our operating results, as well as our ability to grow our digital commerce business globally or to retain our customer base, could be materially adversely affected.

Many of our consumers shop with us through our digital platforms. Increasingly, consumers are using mobile-based devices and applications to shop online with us and with our competitors, and to do comparison shopping, as well as to engage with us and our competitors through digital services and experiences that are offered on mobile platforms. We are increasingly using social media and proprietary mobile applications to interact with our consumers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, secure, user-friendly digital commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers or any failure to provide attractive digital experiences to our customers could place us at a competitive disadvantage, result in the loss of digital commerce and other sales, harm our reputation with consumers, have a material adverse impact on the growth of our digital commerce business globally and have a material adverse impact on our business and results of operations. In addition, as use of our digital platforms continues to grow, we will need an increasing amount of technical infrastructure to continue to satisfy our consumers' needs. If we fail to continue to effectively scale and adapt our digital platforms to accommodate increased consumer demand, our business may be subject to interruptions, delays or failures and consumer demand for our products and digital experiences could decline.

Risks specific to our digital commerce business also include diversion of sales from our and our retailers' brick and mortar stores, difficulty in recreating the in-store experience through direct channels and liability for online content. Our failure to successfully respond to these risks might adversely affect sales in our digital commerce business, as well as damage our reputation and brands.

We rely significantly on information technology to operate our business, including our supply chain and retail operations, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

We are heavily dependent on Information Technology Systems, across our supply chain, including product design, production, forecasting, ordering, manufacturing, transportation, sales and distribution, as well as for processing financial information for external and internal reporting purposes, retail operations and other business activities. Information Technology Systems are critical to many of our operating activities and our business processes and may be negatively impacted by any service interruption or shutdown. For example, our ability to effectively manage and maintain our inventory and to ship products to customers on a timely basis depends significantly on the reliability of these Information Technology Systems. Over a number of years, we have implemented Information Technology Systems in all of the geographical regions in which we operate. Our work to integrate, secure and enhance these systems and related processes in our global operations is ongoing and NIKE will continue to invest in these efforts. We cannot provide assurance, however, that the measures we take to secure and enhance these systems will be sufficient to protect our Information Technology Systems and prevent cyber-attacks, system failures or data or information loss. The failure of these systems to operate effectively, including as a result of security breaches, viruses, hackers, malware, natural disasters, vendor business interruptions or other causes, failure to properly maintain, protect, repair or upgrade systems, or problems with transitioning to upgraded or replacement systems could cause delays in product fulfillment and reduced efficiency of our operations, could require significant capital investments to remediate the problem which may not be sufficient to cover all eventualities, and may have an adverse effect on our reputation, results of operations and financial condition. In addition, the increased use of employee-owned devices for communications as well as work-from-home arrangements, such as those implemented in response to the COVID-19 pandemic, present additional operational risks to our Information Technology Systems, including, but not limited to, increased risks of cyber-attacks. Further, like other companies in the retail industry, we have in the past experienced, and we expect to continue to experience, cyber-attacks, including phishing, and other attempts to breach, or gain unauthorized access to, our systems. To date, these attacks have not had a material impact on our operations, but we cannot provide assurance that they will not have an impact in the future.

We also use Information Technology Systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. If Information Technology Systems suffer severe damage, disruption or shutdown and our business continuity plans, or those of our vendors, do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, which could result in lost revenues and profits, as well as reputational damage. Furthermore, we depend on Information Technology Systems and personal data collection for digital marketing, digital commerce, consumer engagement and the marketing and use of our digital products and services. We also rely on our ability to engage in electronic communications throughout the world between and among our employees as well as with other third parties, including customers, suppliers, vendors and consumers. Any interruption in Information Technology Systems may impede our ability to engage in the digital space and result in lost revenues, damage to our reputation, and loss of users.

We are subject to the risk our licensees may not generate expected sales or maintain the value of our brands.

We currently license, and expect to continue licensing, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. If our licensees fail to successfully market and sell licensed products, or fail to obtain sufficient capital or effectively manage their business operations, customer relationships, labor relationships, supplier relationships or credit risks, it could adversely affect our revenues, both directly from reduced royalties received and indirectly from reduced sales of our other products.

We also rely on our licensees to help preserve the value of our brands. Although we attempt to protect our brands through approval rights over the design, production processes, quality, packaging, merchandising, distribution, advertising and promotion of our licensed products, we cannot completely control the use of our licensed brands by our licensees. The misuse of a brand by or negative publicity involving a licensee could have a material adverse effect on that brand and on us.

Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk and impair our ability to sell products.

The athletic footwear, apparel and equipment retail markets in some countries are dominated by a few large athletic footwear, apparel and equipment retailers with many stores and accelerating digital commerce capabilities. The market shares of these retailers may increase through acquisitions and construction of additional stores and investments in digital capacity, and as a result of attrition as struggling retailers exit the market. Consolidation of our retailers will concentrate our credit risk with a smaller set of retailers, any of whom may experience declining sales or a shortage of liquidity, including as a result of the COVID-19 pandemic. In addition, increasing market share concentration among a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our products, we may be unable to find sufficient retail outlets for our products to sustain the same level of sales and revenues.

If one or more of our counterparty financial institutions default on their obligations to us or fail, we may incur significant losses.

As part of our hedging activities, we enter into transactions involving derivative financial instruments, which may include forward contracts, commodity futures contracts, option contracts, collars and swaps with various financial institutions. In addition, we have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the United States and abroad. As a result, we are exposed to the risk of default by or failure of counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default, or our assets deposited or held in accounts with such counterparty, may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

We rely on a concentrated source base of contract manufacturers to supply a significant portion of our footwear products.

NIKE is supplied by 191 footwear factories located in 14 countries. We do not own or operate any of the footwear manufacturing facilities and depend upon independent contract manufacturers to manufacture all of the footwear products we sell. In fiscal 2021, four footwear contract manufacturers each accounted for greater than 10% of fiscal 2021 footwear production and in aggregate accounted for approximately 61% of NIKE Brand footwear production in fiscal 2021. Our ability to meet our customers' needs depends on our ability to maintain a steady supply of products from our independent contract manufacturers. If one or more of our significant suppliers were to sever their relationship with us or significantly alter the terms of our relationship, including due to changes in applicable trade policies, or be unable to perform, including as a result of the COVID-19 pandemic, we may not be able to obtain replacement products in a timely manner, which could have a material adverse effect on our sales, financial condition or results of operations. Additionally, if any of our primary contract manufacturers fail to make timely shipments, do not meet our quality standards or otherwise fail to deliver us product in accordance with our plans, there could be a material adverse effect on our results of operations.

Certain of our manufacturers are highly specialized and only produce a specific type of product. Such manufacturing partners may go out of business if consumer preferences or market conditions change such that there is no longer sufficient demand for the types of products they produce. If, in the future, the relevant products are again in demand and the specialized manufacturers no longer exist, we may not be able to locate replacement facilities to manufacture certain products in a timely manner or at all, which could have a material adverse effect on our sales, financial condition or results of operations.

The market for prime real estate is competitive.

Our ability to effectively obtain real estate to open new retail stores and otherwise conduct our operations, both domestically and internationally, depends on the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics and other factors. We also must be able to effectively renew our existing real estate leases. In addition, from time to time, we seek to downsize, consolidate, reposition or close some of our real estate locations, which may require modification of an existing lease. Failure to secure adequate new locations or successfully modify leases for existing locations, or failure to effectively manage the profitability of our existing fleet of retail stores, could have an adverse effect on our operating results and financial condition.

Additionally, the economic environment may make it difficult to determine the fair market rent of real estate properties domestically and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents and to renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet our targets or efficiently manage the profitability of our existing fleet of stores, which could have an adverse effect on our operating results and financial condition.

The success of our business depends, in part, on high-quality employees, including key personnel as well as our ability to maintain our workplace culture and values.

Our success depends in part on the continued service of high-quality employees, including key executive officers and personnel. The loss of the services of key individuals, or any negative perception with respect to these individuals, or our workplace culture or values, could harm our business. Our success also depends on our ability to recruit, retain and engage our personnel sufficiently, both to maintain our current business and to execute our strategic initiatives. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel. Changes to our current and future office environments or adoption of a new work model that expects employees to work on-site for a specified number of days with some flexibility to work remotely on other days, may not meet the needs or expectations of our employees or may not be perceived as favorable compared to other companies' policies, which could negatively impact our ability to attract, hire and retain our employees. In addition, shifts in U.S. immigration policy could negatively impact our ability to attract, hire and retain highly skilled employees who are from outside the United States. We also believe that our corporate culture has been a key driver of our success, and we have invested substantial time and resources in building, maintaining and evolving our culture. Any failure to preserve and evolve our culture could negatively affect our future success, including our ability to retain and recruit employees.

Our business operations and financial performance could be adversely affected by changes in our relationship with our workforce or changes to United States or foreign employment regulations.

We have significant exposure to changes in domestic and foreign laws governing our relationships with our workforce, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll taxes, which could have a direct impact on our operating costs. A significant increase in minimum wage or overtime rates in countries where we have workforce could have a significant impact on our operating costs and may require that we relocate those operations or take other steps to mitigate such increases, all of which may cause us to incur additional costs. There is also a risk of potential claims that we have violated laws related to discrimination and harassment, health and safety, wage and hour laws, criminal activity, personal injury and other claims. In addition, if there were a significant increase in the number of members of our workforce who are members of labor organizations or become parties to collective bargaining agreements, we could be vulnerable to a strike, work stoppage or other labor action, which could have an adverse effect on our business.

Risks Related to Operating a Global Business

Our international operations involve inherent risks which could result in harm to our business.

Virtually all of our athletic footwear and apparel is manufactured outside of the United States, and the majority of our products are sold outside of the United States. Accordingly, we are subject to the risks generally associated with global trade and doing business abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political tensions, unrest, disruptions or delays in cross-border shipments and changes in economic conditions in countries in which our products are manufactured or where we sell products. This includes, for example, the effect of Brexit, including implementation of the legal and regulatory framework that applies to the United Kingdom and its relationship with the European Union and other countries, as well as new and proposed changes affecting tax laws and trade policy in the United States and elsewhere as further described below under *“We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate”* and *“Changes to U.S. or other countries' trade policies and tariff and import/export regulations or our failure to comply with such regulations may have a material adverse effect on our reputation, business, financial condition and results of operations.”* Changes in the U.S. presidential administration's import and export policies, including trade restrictions, increased tariffs or quotas, embargoes, safeguards or customs restrictions, could require us to change the way we conduct business and adversely affect our results of operations.

In addition, disease outbreaks, including the recent COVID-19 pandemic, terrorist acts and military conflict have increased the risks of doing business abroad. These factors, among others, could affect our ability to manufacture products or procure materials, our ability to import products, our ability to sell products in international markets and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be adversely affected. In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States and other countries. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, safeguard measures, anti-dumping duties, cargo restrictions to prevent terrorism, restrictions on the transfer of currency, climate change legislation, product safety regulations or other charges or restrictions, any of which could have an adverse effect on our results of operations and financial condition.

Furthermore, we are subject to the U.S. Foreign Corrupt Practices Act as well as the anti-corruption laws of other countries in which we operate. Although we implement policies and procedures designed to promote compliance with these laws, our employees, contractors, suppliers and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation could result in sanctions or other penalties and have an adverse effect on our business, reputation and operating results.

Our products are subject to risks associated with overseas sourcing, manufacturing and financing.

The principal materials used in our apparel products — natural and synthetic fabrics and threads, specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat or repel rain and/or snow as well as plastic and metal hardware — are available in countries where our manufacturing takes place. The principal materials used in our footwear products — natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, natural and synthetic fabrics and threads, nylon, canvas and polyurethane films — are also locally available to manufacturers. Both our apparel and footwear products are dependent upon the ability of our independent contract manufacturers to locate, train, employ and retain adequate personnel. NIKE contractors and suppliers buy raw materials and are subject to wage rates and other labor standards that are oftentimes regulated by the governments of the countries in which our products are manufactured.

There could be a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption, our contract manufacturers might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price or at all. Further, our independent contract manufacturers have experienced and may continue to experience in the future, unexpected increases in work wages or other changes in labor standards, whether government mandated or otherwise, and increases in compliance costs due to governmental regulation concerning certain metals, fabrics or raw materials used in the manufacturing of our products. In addition, we cannot be certain that our unaffiliated manufacturers will be able to fill our orders in a timely manner. If we experience significant increases in demand, or reductions in the availability of materials, or need to replace an existing manufacturer, there can be no assurance additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms acceptable to us, or at all, or that any supplier or manufacturer would allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing or sources of materials, we may encounter delays in production and added costs as a result of the time it takes to train suppliers and manufacturers in our methods, products, quality control standards and labor, health and safety standards. Any delays, interruption or increased costs in labor or wages, or the supply of materials or manufacture of our products could have an adverse effect on our ability to meet retail customer and consumer demand for our products and result in lower revenues and net income both in the short- and long-term.

Because independent manufacturers make a majority of our products outside of our principal sales markets, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, work stoppages, port strikes, infrastructure congestion or other factors, and costs and delays associated with consolidating or transitioning between manufacturers, could adversely impact our financial performance. In addition, manufacturing delays or unexpected demand for our products may require us to use faster, but more expensive, transportation methods such as air freight, which could adversely affect our profit margins. The cost of oil is a significant component in manufacturing and transportation costs, so increases in the price of petroleum products can adversely affect our profit margins. Changes in U.S. trade policies, including to import tariffs and existing trade policies and agreements, could also have a significant impact on our activities in foreign jurisdictions, and could adversely affect our reputation or results of operations.

Our success depends on our global distribution facilities.

We distribute our products to customers directly from the factory and through distribution centers located throughout the world. Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies and growth, particularly in emerging markets, depends on the proper operation of our distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties (including those involved in shipping product to and from our distribution facilities). Our distribution facilities have in the past and could be interrupted by information technology problems, disasters such as earthquakes or fires or outbreaks of disease or government actions taken to mitigate their spread. Any significant failure in our distribution facilities could result in an adverse effect on our business. We maintain business interruption insurance, but it may not adequately protect us from adverse effects caused by significant disruptions in our distribution facilities.

Legal, Regulatory, and Compliance Risks

We are subject to a complex array of laws and regulations and litigation and other legal and regulatory proceedings, which could have an adverse effect on our business, financial condition and results of operations.

As a multinational corporation with operations and distribution channels throughout the world, we are subject to and must comply with extensive laws and regulations in the United States and other jurisdictions in which we have operations and distribution channels. If we or our employees, agents, suppliers, and other partners fail to comply with any of these laws or regulations, such failure could subject us to fines, sanctions or other penalties that could negatively affect our reputation, business, financial condition and results of operations. Furthermore, laws, regulations and policies and the interpretation of such, can conflict among jurisdictions and compliance in one jurisdiction may result in legal or reputational risks in another jurisdiction. We are involved in various types of claims, lawsuits, regulatory proceedings and government investigations relating to our business, our products and the actions of our employees and representatives, including contractual and employment relationships, product liability, antitrust, trademark rights and a variety of other matters. It is not possible to predict with certainty the outcome of any such legal or regulatory proceedings or investigations, and we could in the future incur judgments, fines or penalties, or enter into settlements of lawsuits and claims that could have a material adverse effect on our business, financial condition and results of operations and negatively impact our reputation. The global nature of our business means legal and compliance risks, such as anti-bribery, anti-corruption, fraud, trade, environmental, competition, privacy and other regulatory matters, will continue to exist and additional legal proceedings and other contingencies will arise from time to time, which could adversely affect us. In addition, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations, may result in significant unanticipated legal and reputational risks. Any current or future legal or regulatory proceedings could divert management's attention from our operations and result in substantial legal fees.

Changes to U.S. or other countries' trade policies and tariff and import/export regulations or our failure to comply with such regulations may have a material adverse effect on our reputation, business, financial condition and results of operations.

Changes in U.S. or international social, political, regulatory and economic conditions could impact our business, reputation, financial condition and results of operations. In particular, political and economic instability, geopolitical conflicts, political unrest, civil strife, terrorist activity, acts of war, public corruption, expropriation, nationalism and other economic or political uncertainties in the United States or internationally could interrupt and negatively affect the sale of our products or other business operations. Any negative sentiment toward the United States as a result of any such changes could also adversely affect our business.

In addition, changes in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business could adversely affect our business. U.S. presidential administrations have instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business. It may be time-consuming and expensive for us to alter our business operations in order to adapt to or comply with any such changes.

Changes or proposed changes in U.S. or other countries' trade policies may result in restrictions and economic disincentives on international trade. Tariffs and other changes in U.S. trade policy have in the past and could in the future trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing retaliatory measures on certain U.S. goods. Further, any emerging protectionist or nationalist trends either in the United States or in other countries could affect the trade environment. The Company, similar to many other multinational corporations, does a significant amount of business that would be impacted by changes to the trade policies of the United States and foreign countries (including governmental action related to tariffs, international trade agreements, or economic sanctions). Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof or the economy of another country in which we conduct operations, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations.

Failure to adequately protect or enforce our intellectual property rights could adversely affect our business.

We periodically discover counterfeit reproductions of our products or products that otherwise infringe our intellectual property rights. If we are unsuccessful in enforcing our intellectual property rights, continued sales of these products could adversely affect our sales and our brand and could result in a shift of consumer preference away from our products.

The actions we take to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others. We also may be unable to prevent others from seeking to block sales of our products as violations of proprietary rights.

We may be subject to liability if third parties successfully claim we infringe their intellectual property rights. Defending infringement claims could be expensive and time-consuming and might result in our entering into costly license agreements. We also may be subject to significant damages or injunctions against development, manufacturing, use, importation and/or sale of certain products.

We take various actions to prevent the unauthorized use and/or disclosure of our confidential information and intellectual property rights. These actions include contractual measures such as entering into non-disclosure and non-compete agreements and agreements relating to our collaborations with third parties and providing confidential information awareness training. Our controls and efforts to prevent unauthorized use and/or disclosure of confidential information and intellectual property rights might not always be effective. For example, confidential information related to business strategy, innovations, new technologies, mergers and acquisitions, unpublished financial results or personal data could be prematurely, inadvertently, or improperly used and/or disclosed, resulting in a loss of reputation, loss of intellectual property rights, a decline in our stock price and/or a negative impact on our market position, and could lead to damages, fines, penalties or injunctions.

In addition, the laws of certain countries may not protect or allow enforcement of intellectual property rights to the same extent as the laws of the United States. We may face significant expenses and liability in connection with the protection of our intellectual property rights, including outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

We are subject to data security and privacy risks that could negatively affect our results, operations or reputation.

In addition to our own sensitive and proprietary business information, we handle transactional and personal information about our wholesale customers and consumers and users of our digital experiences, which include online distribution channels and product engagement, adaptive products and personal fitness applications. Hackers and data thieves are increasingly sophisticated and operate social engineering, such as phishing, and large-scale, complex automated attacks that can evade detection for long periods of time. Any breach of our or our service providers' networks, or other vendor systems, may result in the loss of confidential business and financial data, misappropriation of our consumers', users' or employees' personal information or a disruption of our business. Any of these outcomes could have a material adverse effect on our business, including unwanted media attention, impairment of our consumer and customer relationships, damage to our reputation; resulting in lost sales and consumers, fines, lawsuits, or significant legal and remediation expenses. We also may need to expend significant resources to protect against, respond to and/or redress problems caused by any breach.

In addition, we must comply with increasingly complex and rigorous, and sometimes conflicting, regulatory standards enacted to protect business and personal data in the United States, Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation (the “GDPR”), which became effective on May 25, 2018; and California passed the California Consumer Privacy Act (the "CCPA") which became effective on January 1, 2020, and additional jurisdictions are considering proposing or adopting similar regulations. These laws impose additional obligations on companies regarding the handling of personal data and provide certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR and CCPA) and regulations can be costly and time consuming, and any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, imposition of fines by governmental authorities and damage to our reputation and credibility and could have a negative impact on revenues and profits.

We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate.

We earn a substantial portion of our income in foreign countries and, as such, we are subject to the tax laws in the United States and numerous foreign jurisdictions. Current economic and political conditions make tax laws and regulations, or their interpretation and application, in any jurisdiction subject to significant change.

Proposals to reform U.S. and foreign tax laws could significantly impact how U.S. multinational corporations are taxed on foreign earnings and could increase the U.S. corporate tax rate. Although we cannot predict whether or in what form these proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our effective tax rate, income tax expense and cash flows.

Portions of our operations are subject to a reduced tax rate or are under various tax holidays. We also utilize tax rulings and other agreements to obtain certainty in treatment of certain tax matters. These holidays expire from time to time and may be extended when certain conditions are met, or terminated if certain conditions are not met. The impact of any changes in conditions would be the loss of certainty in treatment thus potentially impacting our effective income tax rate. For example, in January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to current and prior periods and the Company's Netherlands income taxes in the future could increase.

We are also subject to the examination of our tax returns by the United States Internal Revenue Service ("IRS") and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for income taxes. Although we believe our tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from our historical income tax provisions and accruals. The results of audits or related disputes could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. For example, we and our subsidiaries are also engaged in a number of intercompany transactions across multiple tax jurisdictions. Although we believe we have clearly reflected the economics of these transactions and the proper local transfer pricing documentation is in place, tax authorities may propose and sustain adjustments that could result in changes that may impact our mix of earnings in countries with differing statutory tax rates.

Failure of our contractors or our licensees' contractors to comply with our code of conduct, local laws and other standards could harm our business.

We work with hundreds of contractors outside of the United States to manufacture our products, and we also have license agreements that permit independent parties to manufacture or contract for the manufacture of products using our intellectual property. We require the contractors that directly manufacture our products and our licensees that make products using our intellectual property (including, indirectly, their contract manufacturers) to comply with a code of conduct and other environmental, human rights, health and safety standards for the benefit of workers. We also require our contract manufacturers and the contractors of our licensees to comply with applicable standards for product safety. Notwithstanding their contractual obligations, from time to time contractors may not comply with such standards or applicable local law or our licensees may fail to enforce such standards or applicable local law on their contractors. If one or more of our direct or indirect contractors violates or fails to comply with, or is accused of violating or failing to comply with, such standards and laws, this could harm our reputation or result in a product recall and, as a result, could have an adverse effect on our sales and financial condition. Negative publicity regarding production methods, alleged unethical or illegal practices or workplace or related conditions of any of our suppliers, manufacturers or licensees could adversely affect our brand image and sales, force us to locate alternative suppliers, manufacturers or licenses or result in the imposition of additional regulations, including new or additional quotas, tariffs, sanctions, product safety regulations or other regulatory measures, by governmental authorities.

Risks Related to Our Securities, Investments and Liquidity

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in technology, business infrastructure, new businesses or capabilities, product offering and manufacturing innovation and expansion of existing businesses, such as our NIKE Direct operations, which require substantial cash investments and management attention. We believe cost-effective investments are essential to business growth and profitability; however, significant investments are subject to typical risks and uncertainties inherent in developing a new business or expanding an existing business. The failure of any significant investment to provide expected returns or profitability could have a material adverse effect on our financial results and divert management attention from more profitable business operations. See also "*Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties*."

The sale of a large number of shares of common stock by our principal stockholder could depress the market price of our common stock.

As of June 30, 2021, Swoosh, LLC beneficially owned approximately 77% of our Class A Common Stock. If, on June 30, 2021, all of these shares were converted into Class B Common Stock, the commensurate ownership percentage of our Class B Common Stock would be approximately 15%. The shares are available for resale, subject to the requirements of the U.S. securities laws and the terms of the limited liability company agreement governing Swoosh, LLC. The sale or prospect of a sale of a substantial number of these shares could have an adverse effect on the market price of our common stock. Swoosh, LLC was formed by Philip H. Knight, our Chairman Emeritus, to hold the majority of his shares of Class A Common Stock. Swoosh, LLC is controlled by Mr. Knight's son and NIKE director, Travis Knight.

Changes in our credit ratings or macroeconomic conditions may affect our liquidity, increasing borrowing costs and limiting our financing options.

Our long-term debt is currently rated Investment Grade by Standard & Poor's and Moody's Investors Service. If our credit ratings are lowered, borrowing costs for our existing facilities or for future long-term debt or short-term credit facilities may increase and our financing options, including our access to credit or capital markets, could be adversely affected. We may also be subject to restrictive covenants that would reduce our flexibility to, among other things, incur additional indebtedness, make restricted payments, pledge assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Failure to comply with such covenants could result in a default, and as a result, the commitments of our lenders under our credit agreements may be terminated and the maturity of amounts owed may be accelerated. In addition, macroeconomic conditions, such as increased volatility or disruption in the credit markets, could adversely affect our ability to refinance existing debt.

If our internal controls are ineffective, our operating results could be adversely affected.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, as provided in “Management's Discussion and Analysis of Financial Condition and Results of Operations.” The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenues and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory reserves, contingent payments under endorsement contracts, accounting for property, plant and equipment and definite-lived assets, hedge accounting for derivatives, income taxes and other contingencies. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class B Common Stock.

Anti-takeover provisions may impair an acquisition of the Company or reduce the price of our common stock.

There are provisions within our articles of incorporation and Oregon law intended to protect shareholder interests by providing the Board of Directors a means to attempt to deny coercive takeover attempts or to negotiate with a potential acquirer in order to obtain more favorable terms. Such provisions include a control share acquisition statute, a freeze-out statute, two classes of stock that vote separately on certain issues, and the fact that holders of Class A Common Stock elect three-quarters of the Board of Directors rounded down to the next whole number. However, such provisions could discourage, delay or prevent an unsolicited merger, acquisition or other change in control of our company that some shareholders might believe to be in their best interests or in which shareholders might receive a premium for their common stock over the prevailing market price. These provisions could also discourage proxy contests for control of the Company.

We may fail to meet market expectations, which could cause the price of our stock to decline.

Our Class B Common Stock is traded publicly, and at any given time various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as analysts' opinions of our future performance, which may, in part, be based upon any guidance we have provided. Analysts' estimates are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has been brought against NIKE and other companies following a decline in the market price of their securities. If our stock price is volatile for any reason, we may become involved in this type of litigation in the future. Any litigation could result in reputational damage, substantial costs and a diversion of management's attention and resources needed to successfully run our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following is a summary of principal properties owned or leased by NIKE:

The NIKE World Campus, owned by NIKE and located near Beaverton, Oregon, USA, is an approximately 400-acre site consisting of over 40 buildings which, together with adjacent leased properties, functions as our world headquarters and is occupied by approximately 11,700 employees engaged in management, research, design, development, marketing, finance and other administrative functions serving nearly all of our segments. We lease a similar, but smaller, administrative facility in Hilversum, the Netherlands, which serves as the headquarters for our Europe, Middle East & Africa geography and management of certain brand functions for our non-U.S. operations. We also lease an office complex in Shanghai, China, our headquarters for our Greater China geography, occupied by employees focused on implementing our wholesale, NIKE Direct and merchandising strategies in the region, among other functions.

In the United States, NIKE has seven significant distribution centers. Four are located in Memphis, Tennessee, two of which are owned and two of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. One distribution center for Converse is located in Ontario, California, which is leased. NIKE has a number of distribution facilities outside the United States, some of which are leased and operated by third-party logistics providers. The most significant distribution facilities outside the United States are located in Laakdal, Belgium; Taicang, China; Tomisato, Japan and Incheon, Korea, all of which we own, as well as in Suzhou, China, which is leased and operated by a third-party logistics provider.

Air Manufacturing Innovation manufactures cushioning components used in footwear at NIKE-owned and leased facilities located near Beaverton, Oregon, and in Dong Nai Province, Vietnam, as well as at NIKE-owned facilities in St. Charles, Missouri.

Aside from the principal properties described above, we lease many offices worldwide for sales and administrative purposes. We lease approximately 1,043 retail stores worldwide, which primarily consist of factory stores. See “United States Market” and “International Markets” for additional information regarding our retail stores. Our leases expire at various dates through the fiscal year 2043.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NIKE's Class B Common Stock is listed on the New York Stock Exchange and trades under the symbol NKE. At July 9, 2021, there were 22,745 holders of record of NIKE's Class B Common Stock and 14 holders of record of NIKE's Class A Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class A Common Stock is not publicly traded, but each share is convertible upon request of the holder into one share of Class B Common Stock. Refer to our Consolidated Statements of Shareholders' Equity for dividends declared on the Class A and Class B Common Stock.

In June 2018, the Board of Directors approved a four-year, $15 billion share repurchase program. During the fourth quarter of fiscal 2020, to enhance our liquidity position in response to COVID-19, we elected to temporarily suspend share repurchases under our existing share repurchase program. The existing program remained authorized by the Board of Directors and during the fourth quarter of fiscal 2021, we began repurchasing shares under the program. As of May 31, 2021, the Company had repurchased 50.0 million shares at an average price of $93.33 per share for a total approximate cost of $4.7 billion.

All share repurchases were made under NIKE's publicly announced program, and there are no other programs under which the Company repurchases shares. The following table presents a summary of share repurchases made during the quarter ended May 31, 2021:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (IN MILLIONS)
March 1 — March 31, 2021	—	$ —	$ 10,981
April 1 — April 30, 2021	1,658,744	$ 130.82	$ 10,764
May 1 — May 31, 2021	3,208,713	$ 134.94	$ 10,331
	4,867,457	**$ 133.54**	

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PERFORMANCE GRAPH

The following graph demonstrates a five-year comparison of cumulative total returns for NIKE's Class B Common Stock; the Standard & Poor's 500 Stock Index; the Standard & Poor's Apparel, Accessories & Luxury Goods Index; and the Dow Jones U.S. Footwear Index. The graph assumes an investment of $100 on May 31, 2016, in each of the indices and our Class B Common Stock. Each of the indices assumes that all dividends were reinvested on the day of issuance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG NIKE, INC.; S&P 500 INDEX; THE DOW JONES U.S. FOOTWEAR INDEX; AND S&P APPAREL, ACCESSORIES & LUXURY GOODS INDEX

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The Dow Jones U.S. Footwear Index consists of NIKE, Deckers Outdoor Corporation and Skechers U.S.A., Inc. Because NIKE is part of the Dow Jones U.S. Footwear Index, the price and returns of NIKE stock have a substantial effect on this index. The Standard & Poor's Apparel, Accessories & Luxury Goods Index consists of Hanesbrands Inc., PVH Corporation, Ralph Lauren Corporation, Tapestry, Inc., Under Armour, Inc. and V.F. Corporation. The Dow Jones U.S. Footwear Index and the Standard & Poor's Apparel, Accessories & Luxury Goods Index include companies in two major lines of business in which the Company competes. The indices do not encompass all of the Company's competitors, nor all product categories and lines of business in which the Company is engaged.

The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make or endorse any predictions as to future stock performance.

The performance graph above is being furnished solely to accompany this Report pursuant to Item 201(e) of Regulation S-K, is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NIKE designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services worldwide. We are the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE-owned retail stores and through digital platforms (which we refer to collectively as our "NIKE Direct" operations), to retail accounts and to a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Our goal is to deliver value to our shareholders by building a profitable global portfolio of branded footwear, apparel, equipment and accessories businesses. Our strategy is to achieve long-term revenue growth by creating innovative, "must-have" products, building deep personal consumer connections with our brands and delivering compelling consumer experiences through digital platforms and at retail.

Since fiscal 2018, through the Consumer Direct Offense and our Triple Double strategy, we have focused on doubling the impact of innovation, increasing our speed and agility to market and growing our direct connections with consumers. In June 2020, we announced a new digitally empowered phase of the Consumer Direct Offense strategy: Consumer Direct Acceleration. This strategic acceleration will focus on three specific areas. First, creating the marketplace of the future through more premium, consistent and seamless consumer experiences that more closely align with what consumers want and need. This strategy will lead with NIKE Digital and our owned stores, as well as through select strategic partners who share our marketplace vision. Second, we will align our product creation and category organizations around a new consumer construct focused on Men's, Women's and Kids'. This approach is intended to allow us to create product that better meets individual consumer needs, including more specialization of our category approach, while re-aligning and simplifying our offense to accelerate our largest growth opportunities. In particular, we expect to reinvest in our Women's and Kids' businesses and also simplify our operating model across the remainder of the Company to optimize effectiveness. Third, we will unify investments in data and analytics, demand sensing, insight gathering, inventory management and other areas against an end-to-end technology foundation to accelerate our digital transformation. We believe this unified approach will accelerate growth and unlock more efficiency for our business, while driving speed and responsiveness as we serve consumers globally. As such, our new financial goals through fiscal 2025 are outlined below:

- High single-digit to low double-digit revenue growth;
- Gross margin rate in the high 40s by fiscal 2025;
- Earnings before interest and taxes as a percent of revenues ("EBIT Margin") in the high teens by fiscal 2025;
- Mid to high teens diluted earnings per share growth;
- Exceeding low 30% range rate of return on invested capital (ROIC); and
- Annual capital expenditures at roughly 3% of Revenues.

As a result of our strategic acceleration, management announced on July 22, 2020, a series of leadership and operating model changes to streamline and speed up our execution. These changes resulted in a net reduction of our global workforce and during fiscal 2021, we incurred pre-tax charges of $294 million, which relate to employee termination costs and, to a lesser extent, stock-based compensation expense. All related actions are now substantially complete, and we expect future annual wage-related savings will be reinvested to execute against this next phase of our strategy. For more information related to our organizational realignment and related costs, see Note 21 — Restructuring within the accompanying Notes to the Consolidated Financial Statements.

COVID-19 UPDATE

Throughout fiscal 2021, the COVID-19 pandemic impacted our business results and operations globally. Our business and wholesale partners experienced temporary store closures and stores operating on reduced hours, as a result of mandatory lockdowns across our North America, EMEA and APLA geographies. Additionally, disruption in the global supply chain due to container shortages, transportation delays and U.S. port congestion interrupted the flow of our inventory. Despite the disruption caused by the pandemic, we achieved record Revenues for fiscal 2021, which increased 19% to $44.5 billion, compared to the prior fiscal year, with gross margin expansion of 140 basis points. We ended the fiscal year with Inventories down 7% compared to May 31, 2020, and our liquidity position remains strong with $13.5 billion of Cash and equivalents and Short-term investments, an increase of $4.7 billion compared to May 31, 2020.

Our NIKE Direct business fueled our growth throughout the year as we navigated the pandemic, leveraging our digital platforms with our store footprint to connect directly with the consumer. NIKE Brand digital revenues grew 60% on a currency-neutral basis, with strong double-digit growth across each of our geographies. Despite temporary store closures throughout the year, due to COVID-19 safety-related measures, we experienced a 4% increase in comparable store sales, driven by growth in Greater China and North America, partially offset by declines in EMEA and APLA. As of July 15, 2021, approximately 99% of our owned stores were open with some operating on reduced hours.

We continue to monitor the rapidly evolving situation, as well as guidance from international and domestic authorities, including federal, state and local public health authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our operating plan. There remains risk that COVID-19 could have material adverse impacts on our future revenue growth as well as our overall profitability and may lead to higher than normal inventory levels in various markets, adverse impacts on the global supply chain, revised payment terms with certain of our wholesale customers, higher sales-related reserves, factory cancellation costs and a volatile effective tax rate driven by changes in the mix of earnings across our jurisdictions.

FISCAL 2021 OVERVIEW

In fiscal 2021, NIKE, Inc. achieved record Revenues which increased 19% to $44.5 billion. The NIKE Brand, which represents over 90% of NIKE, Inc. Revenues, experienced growth of 19%, up 17% on a currency-neutral basis, driven by increases across all geographies. NIKE Direct grew 30% on a currency-neutral basis, driven by 60% growth in digital, with all geographies growing strong double digits, while wholesale revenues grew 10%. Revenues for Converse increased 19% and 16%, on a reported and currency-neutral basis, respectively, led by strong double-digit growth in digital.

Income (loss) before income taxes increased 131% for fiscal 2021, primarily due to higher revenues, gross margin expansion and selling and administrative expense leverage. NIKE, Inc. gross margin increased 140 basis points primarily due to annualizing the impacts of COVID-19 including lower factory cancellation charges, lower inventory obsolescence reserves as well as the favorable rate impact of fixed supply chain costs on a higher volume of wholesale shipments. The increase in gross margin also reflects higher full-price product margins across wholesale and NIKE Direct. Selling and administrative expense decreased due to lower Demand creation expense, partially offset by higher Operating overhead expense. Demand creation expense decreased primarily due to lower marketing and advertising expenses for our brand events and retail operations, as well as lower sports marketing expenses as sporting events were postponed due to COVID-19. These decreases were partially offset by higher digital marketing investments. Operating overhead expense increased primarily due to an increase in strategic technology investments, higher NIKE Direct variable costs and $255 million in restructuring-related costs, partially offset by lower bad debt expense and travel and related expenses. ROIC as of May 31, 2021, was 48.8% compared to 21.5% as of May 31, 2020. ROIC is considered a non-GAAP financial measure, see "Use of Non-GAAP Financial Measures" for further information.

During fiscal 2020, we entered into definitive agreements to sell our NIKE Brand businesses in Brazil, Argentina, Chile and Uruguay and to shift to a distributor operating model. During fiscal 2021, the transaction with Grupo SBF S.A. to purchase substantially all of our NIKE Brand operations in Brazil closed. Additionally, during the third quarter of fiscal 2021, we mutually agreed with Grupo Axo to terminate the sale and purchase agreement for the transition of NIKE's businesses in Argentina, Chile and Uruguay to a distributor partnership. However, as we remain committed to selling the legal entities in all three countries and granting distribution rights to third-party distributors, the assets and liabilities of the entities have remained classified as held-for-sale on our Consolidated Balance Sheets as of May 31, 2021. For more information related to our planned distributor partnership transition within APLA, see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements. In future quarters, as we shift from a wholesale and direct to consumer operating model to a distributor operating model within these countries, we expect consolidated NIKE, Inc. and APLA revenue growth will be reduced due to differences in commercial terms. However, we expect the future operating model to have a favorable impact on our overall profitability as we reduce selling and administrative expenses, as well as lessen exposure to foreign exchange rate volatility.

While foreign currency markets remain volatile, in part due to geopolitical dynamics which may lead to a stronger U.S. Dollar, we continue to see opportunities to drive future growth and profitability. We remain committed to effectively managing our business and mitigating financial market risks to achieve our financial goals over the long-term by executing against the operational strategies outlined above.

For discussion related to the results of operations and changes in financial condition for fiscal 2020 compared to fiscal 2019 refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our fiscal 2020 Form 10-K, which was filed with the United States Securities and Exchange Commission on July 24, 2020.

USE OF NON-GAAP FINANCIAL MEASURES

Throughout this Annual Report on Form 10-K, we discuss non-GAAP financial measures, including references to wholesale equivalent revenues, currency-neutral revenues, Total NIKE Brand earnings before interest and taxes (EBIT) and Total NIKE, Inc. EBIT, as well as EBIT Margin and ROIC, which should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). References to wholesale equivalent revenues are intended to provide context as to the total size of our NIKE Brand market footprint if we had no NIKE Direct operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our NIKE Direct operations, which are charged at prices comparable to those charged to external wholesale customers. Additionally, currency-neutral revenues are calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends, excluding the impact of translation arising from foreign currency exchange rate fluctuations. EBIT is calculated as Net Income before Interest expense (income), net and Income tax expense in the Consolidated Statements of Income. EBIT Margin is calculated as EBIT divided by total NIKE Inc. Revenues. ROIC represents a performance measure that management believes is useful information in understanding the Company's ability to effectively manage invested capital, see the table below for how the Company calculates this measure.

Management uses these non-GAAP financial measures when evaluating the Company's performance, including when making financial and operating decisions. Additionally, management believes these non-GAAP financial measures provide investors with additional financial information that should be considered when assessing our underlying business performance and trends. However, references to wholesale equivalent revenues, currency-neutral revenues, ROIC and EBIT should not be considered in isolation or as a substitute for other financial measures calculated and presented in accordance with U.S. GAAP and may not be comparable to similarly titled non-GAAP measures used by other companies.

Our ROIC calculation as of May 31, 2021 and 2020 is as follows:

	FOR THE TRAILING FOUR QUARTERS ENDED	
(Dollars in millions)	**MAY 31, 2021**	**MAY 31, 2020**
Numerator		
Net income	$ 5,727	$ 2,539
Add: Interest expense (income), net	262	89
Add: Income tax expense	934	348
Earnings before interest and taxes	6,923	2,976
Income tax adjustment(1)	(970)	(352)
Earnings before interest and after taxes	$ 5,953	$ 2,624

	AVERAGE FOR THE TRAILING FIVE QUARTERS ENDED	
	MAY 31, 2021	**MAY 31, 2020**
Denominator		
Total debt(2),(3)	$ 12,890	$ 8,022
Add: Shareholders' equity	10,523	8,938
Less: Cash and equivalents and Short-term investments	11,217	4,756
Total invested capital	$ 12,196	$ 12,204
RETURN ON INVESTED CAPITAL	**48.8 %**	**21.5 %**

(1) Equals Earnings before interest and taxes multiplied by the effective tax rate as of the respective quarter end.

(2) Total debt includes the following: 1) Current portion of long-term debt, 2) Notes Payable, 3) Current portion of operating lease liabilities, 4) Long-term debt and 5) Operating lease liabilities.

(3) The Company adopted Accounting Standards Codification No. 842, Leases, on June 1, 2019. For comparability, total debt for each quarter prior to adoption includes approximately $3.2 billion, which represents the current and long-term portion of the Company's operating lease liabilities as of June 1, 2019.

RESULTS OF OPERATIONS

(Dollars in millions, except per share data)	FISCAL 2021	FISCAL 2020	% CHANGE	FISCAL 2019	% CHANGE
Revenues	$ 44,538	$ 37,403	19 %	39,117	-4 %
Cost of sales	24,576	21,162	16 %	21,643	-2 %
Gross profit	19,962	16,241	23 %	17,474	-7 %
Gross margin	*44.8 %*	*43.4 %*		*44.7 %*	
Demand creation expense	3,114	3,592	-13 %	3,753	-4 %
Operating overhead expense	9,911	9,534	4 %	8,949	7 %
Total selling and administrative expense	13,025	13,126	-1 %	12,702	3 %
% of revenues	*29.2 %*	*35.1 %*		*32.5 %*	
Interest expense (income), net	262	89	—	49	—
Other (income) expense, net	14	139	—	(78)	—
Income before income taxes	6,661	2,887	131 %	4,801	-40 %
Income tax expense	934	348	168 %	772	-55 %
Effective tax rate	*14.0 %*	*12.1 %*		*16.1 %*	
NET INCOME	**$ 5,727**	**$ 2,539**	**126 %**	**4,029**	**-37 %**
Diluted earnings per common share	$ 3.56	$ 1.60	123 %	2.49	-36 %

CONSOLIDATED OPERATING RESULTS

REVENUES

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)
NIKE, Inc. Revenues:							
NIKE Brand Revenues by:							
Footwear	$ 28,021	$ 23,305	20 %	18 %	$ 24,222	-4 %	-2 %
Apparel	12,865	10,953	17 %	15 %	11,550	-5 %	-3 %
Equipment	1,382	1,280	8 %	7 %	1,404	-9 %	-6 %
Global Brand Divisions(2)	25	30	-17 %	-17 %	42	-29 %	-26 %
Total NIKE Brand Revenues	**42,293**	**35,568**	**19 %**	**17 %**	**37,218**	**-4 %**	**-2 %**
Converse	2,205	1,846	19 %	16 %	1,906	-3 %	-1 %
Corporate(3)	40	(11)	—	—	(7)	—	—
TOTAL NIKE, INC. REVENUES	**$ 44,538**	**$ 37,403**	**19 %**	**17 %**	**$ 39,117**	**-4 %**	**-2 %**
Supplemental NIKE Brand Revenues Details:							
NIKE Brand Revenues by:							
Sales to Wholesale Customers	$ 25,898	$ 23,156	12 %	10 %	$ 25,423	-9 %	-7 %
Sales through NIKE Direct	16,370	12,382	32 %	30 %	11,753	5 %	8 %
Global Brand Divisions(2)	25	30	-17 %	-17 %	42	-29 %	-26 %
TOTAL NIKE BRAND REVENUES	**$ 42,293**	**$ 35,568**	**19 %**	**17 %**	**$ 37,218**	**-4 %**	**-2 %**
NIKE Brand Revenues on a Wholesale Equivalent Basis:(1)							
Sales to Wholesale Customers	$ 25,898	$ 23,156	12 %	10 %	$ 25,423	-9 %	-7 %
Sales from our Wholesale Operations to NIKE Direct Operations	9,872	7,452	32 %	30 %	7,127	5 %	7 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 35,770**	**$ 30,608**	**17 %**	**15 %**	**$ 32,550**	**-6 %**	**-4 %**
NIKE Brand Wholesale Equivalent Revenues by: (1)							
Men's	$ 18,883	$ 16,694	13 %	11 %	$ 17,737	-6 %	-4 %
Women's	8,555	6,999	22 %	20 %	7,380	-5 %	-3 %
NIKE Kids'	5,884	5,033	17 %	15 %	5,283	-5 %	-3 %
Others(4)	2,448	1,882	30 %	26 %	2,150	-12 %	-10 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 35,770**	**$ 30,608**	**17 %**	**15 %**	**$ 32,550**	**-6 %**	**-4 %**
NIKE Brand Wholesale Equivalent Revenues by: (1)							
Running	$ 3,987	$ 3,830	4 %	3 %	$ 4,488	-15 %	-12 %
NIKE Basketball	1,692	1,508	12 %	10 %	1,597	-6 %	-4 %
Jordan Brand	4,711	3,609	31 %	28 %	3,138	15 %	16 %
Football (Soccer)	1,682	1,575	7 %	4 %	1,894	-17 %	-14 %
Training	2,907	2,688	8 %	7 %	3,137	-14 %	-13 %
Sportswear	15,053	12,285	23 %	20 %	12,442	-1 %	1 %
Others(5)	5,738	5,113	12 %	11 %	5,854	-13 %	-10 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 35,770**	**$ 30,608**	**17 %**	**15 %**	**$ 32,550**	**-6 %**	**-4 %**

(1) The percent change excluding currency changes and the presentation of wholesale equivalent revenues represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.

(2) Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment.

(3) 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.

(4) Others include all unisex products, equipment and other products not allocated to Men's, Women's and NIKE Kids', as well as certain adjustments that are not allocated to products designated by gender or age.

(5) Others include all other categories and certain adjustments that are not allocated at the category level.

FISCAL 2021 NIKE BRAND REVENUE HIGHLIGHTS

The following tables present NIKE Brand revenues disaggregated by reportable operating segment, distribution channel and major product line:

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FISCAL 2021 COMPARED TO FISCAL 2020

On a currency-neutral basis, NIKE, Inc. Revenues increased 17% for fiscal 2021, driven by growth in both the NIKE Brand and Converse. Higher revenues in North America contributed approximately 7 percentage points to NIKE, Inc. Revenues, with EMEA and Greater China each contributing approximately 4 percentage points of growth and APLA and Converse each contributing approximately 1 percentage point of growth.

On a currency-neutral basis, NIKE Brand footwear revenues increased 18% for fiscal 2021, driven by growth in nearly all key categories, primarily Sportswear and the Jordan Brand. Unit sales of footwear increased 11%, while higher average selling price (ASP), on a wholesale equivalent basis, per pair contributed approximately 7 percentage points of footwear revenue growth. The increase in ASP was primarily due to higher full-price ASP, in part reflecting lower discounts, as well as higher NIKE Direct ASP and the favorable impact of growth in our NIKE Direct business.

Currency-neutral NIKE Brand apparel revenues increased 15% for fiscal 2021, due to growth in all key categories, primarily Sportswear, Football (Soccer) and the Jordan Brand. Unit sales of apparel increased 14%, while higher ASP per unit contributed approximately 1 percentage point of apparel revenue growth. The increase in ASP was primarily due to the favorable impact of growth in our NIKE Direct business, as well as higher NIKE Direct ASP, partially offset by lower full-price ASP.

On a reported basis, NIKE Direct revenues represented approximately 39% of our total NIKE Brand revenues for fiscal 2021 compared to 35% for fiscal 2020. Digital commerce sales were $9.1 billion for fiscal 2021 compared to $5.5 billion for fiscal 2020. On a currency-neutral basis, NIKE Direct revenues increased 30% for fiscal 2021, driven by strong digital commerce sales growth of 60%, comparable store sales growth of 4% and the addition of new stores. Comparable store sales, which exclude digital commerce sales, comprises 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. Comparable store sales includes revenues from stores that were temporarily closed during the period as a result of COVID-19. Comparable store sales represents a performance measure that we believe is useful information for management and investors in understanding the performance of our established NIKE-owned in-line and factory stores. Management considers this metric when making financial and operating decisions. The method of calculating comparable store sales varies across the retail industry. As a result, our calculation of this metric may not be comparable to similarly titled measures used by other companies.

On a currency-neutral basis, fiscal 2021 NIKE Brand Men's and Women's revenues increased 11% and 20%, respectively. Higher NIKE Brand Men's revenues were driven by growth in nearly all key categories, primarily Sportswear, the Jordan Brand and Football (Soccer). Higher NIKE Brand Women's revenues were driven by growth in all key categories, primarily Sportswear, the Jordan Brand, Training and Running. Revenues for our NIKE Kids' business increased 15%, due to growth primarily in the Jordan Brand and Football (Soccer).

GROSS MARGIN

FISCAL 2021 COMPARED TO FISCAL 2020

For fiscal 2021, our consolidated gross profit increased 23% to $19,962 million compared to $16,241 million for fiscal 2020, as the prior fiscal year was significantly impacted by lower shipments to our wholesale customers and store closures within our NIKE Direct operations due to COVID-19. Gross margin increased 140 basis points to 44.8% for fiscal 2021 compared to 43.4% for fiscal 2020 due to the following:

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Wholesale equivalent

Favorable NIKE Brand full-price product margins across both our wholesale and NIKE Direct businesses primarily reflect higher full-price ASP, net of discounts. Additionally, the favorable impact of growth in our higher margin NIKE Direct business, led by NIKE owned Digital, was more than offset by higher promotions in our factory stores during the first half of fiscal 2021 to reduce excess inventory as a result of COVID-19. Lower other costs are due to annualizing certain impacts of COVID-19 from fiscal 2020, including lower factory cancellation charges, lower inventory obsolescence reserves as well as the favorable rate impact of fixed supply chain costs on a higher volume of wholesale shipments.

TOTAL SELLING AND ADMINISTRATIVE EXPENSE

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	FISCAL 2019	% CHANGE
Demand creation expense[1]	$ 3,114	$ 3,592	-13 %	$ 3,753	-4 %
Operating overhead expense	9,911	9,534	4 %	8,949	7 %
Total selling and administrative expense	$ 13,025	$ 13,126	-1 %	$ 12,702	3 %
% of revenues	29.2 %	35.1 %	(590) bps	32.5 %	260 bps

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

FISCAL 2021 COMPARED TO FISCAL 2020

Demand creation expense decreased 13% for fiscal 2021, due to lower marketing and advertising expenses for our brand events and retail operations, as well as lower sports marketing expense as sporting events were postponed due to COVID-19. This activity was partially offset by higher digital marketing investments. Changes in foreign currency exchange rates increased Demand creation expense by approximately 2 percentage points for fiscal 2021.

Operating overhead expense increased 4% for fiscal 2021, due to an increase in strategic technology investments, higher NIKE Direct variable costs, and approximately $255 million in restructuring-related costs, partially offset by lower bad debt expense and lower travel and related expenses. Changes in foreign currency exchange rates increased Operating overhead expense by approximately 1 percentage point for fiscal 2021.

OTHER (INCOME) EXPENSE, NET

(Dollars in millions)	FISCAL 2021	FISCAL 2020	FISCAL 2019
Other (income) expense, net	$ 14	$ 139	$ (78)

Other (income) expense, net comprises foreign currency conversion gains and losses from the remeasurement 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.

FISCAL 2021 COMPARED TO FISCAL 2020

Other (income) expense, net decreased from $139 million of other expense, net in fiscal 2020 to $14 million of other expense, net in the current year, primarily due to the non-recurring impairment charge of $405 million incurred in the prior year associated with our planned, strategic distributor partnership transition within APLA, partially offset by a $241 million net detrimental change in foreign currency conversion gains and losses, including hedges.

For more information related to our distributor partnership transition within APLA, see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements.

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 a favorable impact on our Income before income taxes of $19 million for fiscal 2021.

INCOME TAXES

	FISCAL 2021	FISCAL 2020	% CHANGE	FISCAL 2019	% CHANGE
Effective tax rate	14.0 %	12.1 %	190 bps	16.1 %	(400) bps

FISCAL 2021 COMPARED TO FISCAL 2020

Our effective tax rate was 14.0% for fiscal 2021, compared to 12.1% for fiscal 2020 due to a change in the proportion of earnings taxed in the U.S. related to the recovery from the impact of the COVID-19 pandemic and less favorable impacts from discrete items such as stock-based compensation.

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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands, with results for the Hurley brand, prior to its divestiture in fiscal 2020, included in North America. Refer to Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements for additional information. The Company's NIKE Direct operations are managed within each geographic operating segment. Converse is also a reportable operating segment for the Company and operates predominately in one industry: the design, marketing, licensing and selling of athletic lifestyle sneakers, apparel and accessories.

As part of our centrally managed foreign exchange risk management program, standard foreign currency exchange rates are assigned twice per year to each NIKE Brand entity in our geographic operating segments and Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the use of these standard rates to record non-functional currency product purchases into the entity's functional currency. Differences between assigned standard foreign currency exchange 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)	FISCAL 2021	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES[1]	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES[1]
North America	$ 17,179	$ 14,484	19 %	19 %	$ 15,902	-9 %	-9 %
Europe, Middle East & Africa	11,456	9,347	23 %	17 %	9,812	-5 %	-1 %
Greater China	8,290	6,679	24 %	19 %	6,208	8 %	11 %
Asia Pacific & Latin America[2]	5,343	5,028	6 %	8 %	5,254	-4 %	1 %
Global Brand Divisions[3]	25	30	-17 %	-17 %	42	-29 %	-26 %
TOTAL NIKE BRAND	**42,293**	**35,568**	**19 %**	**17 %**	**37,218**	**-4 %**	**-2 %**
Converse	2,205	1,846	19 %	16 %	1,906	-3 %	-1 %
Corporate[4]	40	(11)	—	—	(7)	—	—
TOTAL NIKE, INC. REVENUES	**$ 44,538**	**$ 37,403**	**19 %**	**17 %**	**$ 39,117**	**-4 %**	**-2 %**

(1) The percent change excluding currency changes represents a non-GAAP financial measure. See "Use of Non-GAAP Financial Measures" for further information.

(2) Refer to Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements for additional information on the transition of our NIKE Brand business in Brazil to a third-party distributor.

(3) Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment.

(4) 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 primary financial measure used by the Company to evaluate performance of individual operating segments is EBIT, which represents Net income before Interest expense (income), net and Income tax expense in the Consolidated Statements of Income. As discussed in Note 17 — Operating Segments and Related Information in the accompanying Notes to the 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)	FISCAL 2021	FISCAL 2020	% CHANGE	FISCAL 2019	% CHANGE
North America	$ 5,089	$ 2,899	76 %	$ 3,925	-26 %
Europe, Middle East & Africa	2,435	1,541	58 %	1,995	-23 %
Greater China	3,243	2,490	30 %	2,376	5 %
Asia Pacific & Latin America	1,530	1,184	29 %	1,323	-11 %
Global Brand Divisions	(3,656)	(3,468)	-5 %	(3,262)	-6 %
TOTAL NIKE BRAND[1]	**$ 8,641**	**$ 4,646**	**86 %**	**$ 6,357**	**-27 %**
Converse	543	297	83 %	303	-2 %
Corporate	(2,261)	(1,967)	-15 %	(1,810)	-9 %
TOTAL NIKE, INC. EARNINGS BEFORE INTEREST AND TAXES[1]	**$ 6,923**	**$ 2,976**	**133 %**	**$ 4,850**	**-39 %**
EBIT margin[1]	*15.5 %*	*8.0 %*		*12.4 %*	
Interest expense (income), net	262	89	—	49	—
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 6,661**	**$ 2,887**	**131 %**	**$ 4,801**	**-40 %**

(1) Total NIKE Brand EBIT, Total NIKE, Inc. EBIT and EBIT Margin, represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.

NORTH AMERICA

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 11,644	$ 9,329	25 %	25 %	$ 10,045	-7 %	-7 %
Apparel	5,028	4,639	8 %	8 %	5,260	-12 %	-12 %
Equipment	507	516	-2 %	-2 %	597	-14 %	-14 %
TOTAL REVENUES	**$ 17,179**	**$ 14,484**	**19 %**	**19 %**	**$ 15,902**	**-9 %**	**-9 %**
Revenues by:							
Sales to Wholesale Customers	$ 10,186	$ 9,371	9 %	9 %	$ 10,875	-14 %	-14 %
Sales through NIKE Direct	6,993	5,113	37 %	37 %	5,027	2 %	2 %
TOTAL REVENUES	**$ 17,179**	**$ 14,484**	**19 %**	**19 %**	**$ 15,902**	**-9 %**	**-9 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 5,089**	**$ 2,899**	**76 %**		**$ 3,925**	**-26 %**	

We believe there continues to be a meaningful shift in the way consumers shop for product and make purchasing decisions across each of our geographies. Consumers are demanding a constant flow of fresh and innovative product, and have an expectation for superior service and rapid delivery, all fueled by the shift toward digital and mono-brand experiences in NIKE Direct. We anticipate continued evolution within the retail landscape, driven by shifting consumer traffic patterns across digital and physical channels. Specifically in North America, we remain focused on building long-term momentum with our strategic wholesale customers, which offer a differentiated retail experience. Additionally, over the last three years we have significantly reduced the number of undifferentiated wholesale accounts. During fiscal 2021, we took further steps towards account and channel consolidation by reprioritizing product allocation to benefit NIKE Direct and our differentiated strategic wholesale customers. We expect that over the next two fiscal years, we will more aggressively accelerate these changes as we work to reprofile the shape of the marketplace and recapture wholesale revenue declines over time.

FISCAL 2021 COMPARED TO FISCAL 2020

On a currency-neutral basis, North America revenues increased 19%, driven by growth in nearly all key categories, led by Sportswear and the Jordan Brand. NIKE Direct revenues increased 37%, driven by strong digital sales growth of 73%, comparable store sales growth of 5% and the addition of new stores.

Footwear revenues increased 25% on a currency-neutral basis due to higher revenues in several key categories, led by Sportswear and the Jordan Brand. Unit sales of footwear increased 17%, while higher ASP per pair contributed approximately 8 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to higher NIKE Direct and full-price ASPs, in part reflecting lower-discounts, as well as the favorable impact of growth in our NIKE Direct business.

On a currency-neutral basis, apparel revenues increased 8% for fiscal 2021 driven by growth in all key categories, led by Sportswear. Unit sales of apparel increased 8%, while ASP per unit was flat, as the favorable impact of growth in our NIKE Direct business was offset by lower full-price ASP.

Reported EBIT increased 76% driven by higher revenues, lower selling and administrative expense as a percent of revenues and gross margin expansion. Gross margin increased approximately 430 basis points, primarily due to lower other costs, higher full-price ASP, reflecting lower discounts, the favorable impact of growth in our NIKE Direct business and lower product costs. The decrease in other costs was primarily due to annualizing the impacts of COVID-19 from fiscal 2020, including lower factory cancellation charges, lower inventory obsolescence reserves and the favorable rate impact of fixed supply chain costs on a higher volume of wholesale shipments. Selling and administrative expense decreased due to lower operating overhead and demand creation expense. Operating overhead expense decreased primarily as a result of lower bad debt and wage-related expenses, partially offset by higher NIKE Direct variable costs. The decrease in demand creation expense was primarily due to lower advertising and marketing expense for brand events and our retail operations, as well as lower sports marketing expense, partially offset by continued investments in digital marketing to support heightened digital demand.

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EUROPE, MIDDLE EAST & AFRICA

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 6,970	$ 5,892	18 %	13 %	$ 6,293	-6 %	-3 %
Apparel	3,996	3,053	31 %	25 %	3,087	-1 %	2 %
Equipment	490	402	22 %	19 %	432	-7 %	-3 %
TOTAL REVENUES	**$ 11,456**	**$ 9,347**	**23 %**	**17 %**	**$ 9,812**	**-5 %**	**-1 %**
Revenues by:							
Sales to Wholesale Customers	$ 7,812	$ 6,574	19 %	14 %	$ 7,076	-7 %	-4 %
Sales through NIKE Direct	3,644	2,773	31 %	25 %	2,736	1 %	5 %
TOTAL REVENUES	**$ 11,456**	**$ 9,347**	**23 %**	**17 %**	**$ 9,812**	**-5 %**	**-1 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 2,435**	**$ 1,541**	**58 %**		**$ 1,995**	**-23 %**	

FISCAL 2021 COMPARED TO FISCAL 2020

On a currency-neutral basis, EMEA revenues for fiscal 2021 grew 17%, driven by higher revenues across nearly all territories, led by UK & Ireland and Central Europe, which grew 34% and 20%, respectively. Revenues increased in all key categories, led by Sportswear and the Jordan Brand. NIKE Direct revenues increased 25%, driven by strong digital sales growth of 67%, partially offset by a 10% decline in comparable store sales, primarily due to reduced physical retail traffic, in part resulting from temporary store closures and safety-related measures in response to COVID-19.

Currency-neutral footwear revenues increased 13%, driven by higher revenues in nearly all key categories, led by Sportswear and the Jordan Brand. Unit sales of footwear increased 9% and higher ASP per pair contributed approximately 4 percentage points, resulting from higher full-price ASP and the favorable impact of growth in our NIKE Direct business.

Currency-neutral apparel revenues increased 25% due to growth in all key categories, led by Sportswear and Football (Soccer). Unit sales of apparel increased 26%, while lower ASP per unit reduced apparel revenues by approximately 1 percentage point. Lower ASP per unit was primarily due to a lower mix of NIKE Direct sales, partially offset by higher full-price ASP, in part reflecting lower discounts.

Reported EBIT increased 58% as higher revenues and lower selling and administrative expense more than offset a decline in gross margin. Gross margin decreased approximately 110 basis points primarily due to lower NIKE Direct margins and unfavorable changes in standard foreign currency exchange rates, which more than offset lower product costs and lower other costs. The decrease in other costs was primarily due to annualizing the impacts of COVID-19, including lower inventory obsolescence reserves, as well as the favorable rate impact of fixed supply chain costs on a higher volume of wholesale shipments. Selling and administrative expense decreased due to lower demand creation and operating overhead expense. The decrease in demand creation expense was primarily driven by lower retail brand presentation costs and lower sports marketing expense. Lower operating overhead expense was primarily due to lower bad debt and travel and related expenses, partially offset by higher NIKE Direct variable costs.

GREATER CHINA

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 5,748	$ 4,635	24 %	19 %	$ 4,262	9 %	12 %
Apparel	2,347	1,896	24 %	19 %	1,808	5 %	8 %
Equipment	195	148	32 %	26 %	138	7 %	11 %
TOTAL REVENUES	**$ 8,290**	**$ 6,679**	**24 %**	**19 %**	**$ 6,208**	**8 %**	**11 %**
Revenues by:							
Sales to Wholesale Customers	$ 4,513	$ 3,803	19 %	14 %	$ 3,726	2 %	6 %
Sales through NIKE Direct	3,777	2,876	31 %	26 %	2,482	16 %	20 %
TOTAL REVENUES	**$ 8,290**	**$ 6,679**	**24 %**	**19 %**	**$ 6,208**	**8 %**	**11 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 3,243**	**$ 2,490**	**30 %**		**$ 2,376**	**5 %**	

FISCAL 2021 COMPARED TO FISCAL 2020

On a currency-neutral basis, Greater China revenues for fiscal 2021 increased 19%, driven by higher revenues in all key categories, led by Sportswear, the Jordan Brand and NIKE Basketball. NIKE Direct revenues increased 26%, driven by digital sales growth of 26%, comparable store sales growth of 22% and the addition of new stores.

Currency-neutral footwear revenues increased 19%, driven by growth in all key categories, led by Sportswear, the Jordan Brand and NIKE Basketball. Unit sales of footwear increased 20%, while lower ASP per pair reduced footwear revenues by approximately 1 percentage point, driven by an unfavorable full-price mix, partially offset by higher full-price ASP, due to lower discounts.

Currency-neutral apparel revenue growth of 19% was fueled by higher revenues in nearly all key categories, most notably Sportswear. Unit sales of apparel increased 18%, while higher ASP per unit contributed approximately 1 percentage point of apparel revenue growth. Higher ASP was driven by higher off-price ASP, partially offset by lower NIKE Direct ASP due to higher levels of promotion to liquidate excess inventory through our factory stores.

Reported EBIT increased 30% as higher revenues and lower selling and administrative expense more than offset a decline in gross margin. Gross margin decreased approximately 200 basis points primarily due to unfavorable changes in standard foreign currency exchange rates and higher product costs. Selling and administrative expense decreased due to lower demand creation expense, partially offset by higher operating overhead expense. Demand creation expense decreased primarily due to lower advertising and marketing, as well as digital marketing expenses. Growth in operating overhead expense was driven by higher investments within our NIKE Direct operations.

ASIA PACIFIC & LATIN AMERICA

(Dollars in millions)		FISCAL 2021		FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES		FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:										
Footwear	$	3,659	$	3,449	6 %	8 %	$	3,622	-5 %	0 %
Apparel		1,494		1,365	9 %	10 %		1,395	-2 %	3 %
Equipment		190		214	-11 %	-9 %		237	-10 %	-4 %
TOTAL REVENUES	**$**	**5,343**	**$**	**5,028**	**6 %**	**8 %**	**$**	**5,254**	**-4 %**	**1 %**
Revenues by:										
Sales to Wholesale Customers	$	3,387	$	3,408	-1 %	2 %	$	3,746	-9 %	-4 %
Sales through NIKE Direct		1,956		1,620	21 %	22 %		1,508	7 %	12 %
TOTAL REVENUES	**$**	**5,343**	**$**	**5,028**	**6 %**	**8 %**	**$**	**5,254**	**-4 %**	**1 %**
EARNINGS BEFORE INTEREST AND TAXES	**$**	**1,530**	**$**	**1,184**	**29 %**		**$**	**1,323**	**-11 %**	

As discussed previously, our NIKE Brand business in Brazil transitioned to a distributor operating model during the third quarter of fiscal 2021 and our NIKE Brand businesses in Argentina, Chile and Uruguay have remained classified as held-for-sale. The impacts of closing the Brazil transaction as well as entering into agreements to transition these entities in the prior year are included within Corporate and are not reflected in the APLA operating segment results. For more information see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements.

FISCAL 2021 COMPARED TO FISCAL 2020

On a currency-neutral basis, APLA revenues increased 8% for fiscal 2021. The increase was due to higher revenues across most territories, led by a 15% increase in Japan, a 37% increase in Pacific, which includes Australia and New Zealand, and a 12% increase in Korea, partially offset by a decline in Latin Distributors of 48%. Additionally, the transition of our NIKE Brand business in Brazil to a third-party distributor operating model reduced APLA revenue growth by approximately 2 percentage points. Revenues increased in most key categories, led by Sportswear and the Jordan Brand. NIKE Direct revenues increased 22%, primarily fueled by strong digital sales growth of 73%, partially offset by comparable store sales declines of 4%, largely due to reduced physical retail traffic, in part resulting from safety-related measures in response to COVID-19.

Currency-neutral footwear revenues increased 8% for fiscal 2021 due to higher revenues in several key categories, primarily the Jordan Brand and Sportswear. Unit sales of footwear decreased 5%, while higher ASP per pair contributed approximately 13 percentage points of footwear revenue growth, driven by higher full-price and NIKE Direct ASPs, in part reflecting inflationary conditions in our SOCO territory, which includes Argentina, Chile and Uruguay, as well as the favorable impact of growth in our NIKE Direct business.

Currency-neutral apparel revenues increased 10% for fiscal 2021 due to higher revenues in most key categories, led by Sportswear. Unit sales of apparel increased 5%, while higher ASP per unit contributed approximately 5 percentage points of apparel revenue growth. Higher ASP per unit was primarily driven by higher full-price ASP, in part reflecting inflationary conditions in our SOCO territory.

Reported EBIT increased 29% for fiscal 2021 driven by higher revenues, lower selling and administrative expense and gross margin expansion. Gross margin increased approximately 130 basis points as higher full-price ASP, net of discounts, in part reflecting inflationary conditions in our SOCO territory, and lower other costs, were partially offset by higher product costs, unfavorable standard foreign currency exchange rates and lower margin in our NIKE Direct business. The decrease in other costs was primarily due to annualizing the impacts of COVID-19, including lower factory cancellation charges and lower inventory obsolescence reserves. Selling and administrative expense decreased due to lower demand creation and operating overhead expense. The decrease in demand creation expense was primarily due to lower advertising and marketing expense, as well as a decline in sports marketing costs. Lower operating overhead expense was primarily due to lower bad debt and travel and related costs, partially offset by higher NIKE Direct variable costs.

GLOBAL BRAND DIVISIONS

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues	$ 25	$ 30	-17 %	-17 %	$ 42	-29 %	-26 %
Earnings (Loss) Before Interest and Taxes	$ (3,656)	$ (3,468)	-5 %		$ (3,262)	-6 %	

Global Brand Divisions primarily represent demand creation and operating overhead expense, including product creation and design expenses that are centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology. Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment.

FISCAL 2021 COMPARED TO FISCAL 2020

Global Brand Divisions' loss before interest and taxes increased 5% for fiscal 2021 due to higher total selling and administrative expense, driven by higher operating overhead expense, partially offset by lower demand creation expense. The increase in operating overhead expense was primarily due to continued investments in digital capabilities, partially offset by lower travel and related expenses. Lower demand creation expense was primarily due to lower sports marketing costs.

CONVERSE

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 1,986	$ 1,642	21 %	17 %	$ 1,658	-1 %	1 %
Apparel	104	89	17 %	13 %	118	-25 %	-22 %
Equipment	29	25	16 %	14 %	24	4 %	8 %
Other(1)	86	90	-4 %	-1 %	106	-15 %	-14 %
TOTAL REVENUES	**$ 2,205**	**$ 1,846**	**19 %**	**16 %**	**$ 1,906**	**-3 %**	**-1 %**
Revenues by:							
Sales to Wholesale Customers	$ 1,353	$ 1,154	17 %	13 %	$ 1,247	-7 %	-5 %
Sales through Direct to Consumer	766	602	27 %	24 %	553	9 %	11 %
Other(1)	86	90	-4 %	-1 %	106	-15 %	-14 %
TOTAL REVENUES	**$ 2,205**	**$ 1,846**	**19 %**	**16 %**	**$ 1,906**	**-3 %**	**-1 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 543**	**$ 297**	**83 %**		**$ 303**	**-2 %**	

(1) Other revenues consist of territories serviced by third-party licensees who pay royalties to Converse for the use of its registered trademarks and other intellectual property rights. We do not own the Converse trademarks in Japan and accordingly do not earn revenues in Japan.

FISCAL 2021 COMPARED TO FISCAL 2020

On a currency-neutral basis, Converse revenues increased 16% for fiscal 2021. The increase in revenues was driven by revenue growth across Western Europe, North America and Asia. Wholesale revenues increased 13%, driven primarily by growth in Western Europe and Asia, in part due to the impacts of COVID-19 in the prior year. Direct to consumer revenues increased 24%, driven by strong digital sales growth across North America and Western Europe. Combined unit sales within the wholesale and direct to consumer channels increased 9%, while ASP increased 8%, primarily due to growth in full-price sales, including through our digital channel.

Reported EBIT increased 83%, driven by higher revenues and lower selling and administrative expense. Gross margin was flat, as higher full-price ASP, net of discounts, and the favorable rate impact of fixed supply chain costs on a higher volume of wholesale shipments was offset by higher product costs and unfavorable changes in standard foreign currency exchange rates. Selling and administrative expense decreased due to lower operating overhead and demand creation expense. Operating overhead expense decreased primarily due to lower bad debt, travel and related costs and other administrative costs. Demand creation expense decreased as a result of lower advertising and marketing, as well as digital marketing expenses.

CORPORATE

(Dollars in millions)	FISCAL 2021	FISCAL 2020	% CHANGE	FISCAL 2019	% CHANGE
Revenues	$ 40	$ (11)	—	$ (7)	—
Earnings (Loss) Before Interest and Taxes	$ (2,261)	$ (1,967)	-15 %	$ (1,810)	-9 %

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 primarily consists 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 exchange 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 remeasurement of monetary assets and liabilities in non-functional currencies; and certain other foreign currency derivative instruments.

FISCAL 2021 COMPARED TO FISCAL 2020

Corporate's loss before interest and taxes increased $294 million during fiscal 2021, primarily due to the following:

- an unfavorable change in net foreign currency gains and losses of $241 million related to the remeasurement 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;
- a favorable change of $132 million 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; and
- an unfavorable change of $185 million in part due to restructuring-related costs of $294 million associated with changes to our organizational model announced in July 2020, partially offset by the $405 million charge in the prior year related to our planned distributor transition within APLA.

For more information related to our distributor partnership transition within APLA, as well as more information related to our organizational realignment and related costs, refer to Note 20 — Acquisitions and Divestitures and Note 21 — Restructuring, respectively, within the accompanying Notes to the Consolidated Financial Statements.

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.

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 material to NIKE, Inc. We manage these exposures by taking advantage of natural offsets and currency correlations existing 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 existing 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 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.

Refer to Note 6 — Fair Value Measurements and Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional description of outstanding derivatives at each reported period end.

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:

     a. Certain NIKE entities purchase product from the NTC, a wholly-owned sourcing hub that buys NIKE branded products from 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. NTC sales to a NIKE entity with a different functional currency results in 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 inventory costs 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 14 — Risk Management and Derivatives in the accompanying Notes to the 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 reduces 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 NIKE Brand and Converse revenues associated with European operations 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 entered into contractual agreements which have payments indexed to foreign currencies that create embedded derivative contracts recorded at fair value through Other (income) expense, net. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the 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 remeasurement 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, except for hedges of the embedded derivative components of the product cost exposures and other contractual agreements.

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

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 (loss) within Shareholders' equity. In the translation of our 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 benefit of approximately $893 million, a detriment of approximately $867 million and a detriment of approximately $1,236 million for the years ended May 31, 2021, 2020 and 2019, respectively. The impact of foreign exchange rate fluctuations on the translation of our Income before income taxes was a benefit of approximately $260 million, a detriment of approximately $212 million and a detriment of approximately $233 million for the years ended May 31, 2021, 2020 and 2019, respectively.

Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Management has concluded our Argentina subsidiary within our APLA operating segment is operating in a hyper-inflationary market. As a result, beginning in the second quarter of fiscal 2019, the functional currency of our Argentina subsidiary changed from the local currency to the U.S. Dollar. As of and for the period ended May 31, 2021, this change did not have a material impact on our results of operations or financial condition and we do not anticipate it will have a material impact in future periods based on current rates.

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 U.S. GAAP. 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 the purchase of U.S. Dollar denominated available-for-sale investments are accounted for as cash flow hedges.

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 a favorable impact of approximately $19 million and unfavorable impacts of $91 million and $97 million on our Income before income taxes for the years ended May 31, 2021, 2020 and 2019, 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 as net investment hedges in accordance with U.S. GAAP. There were no outstanding net investment hedges as of May 31, 2021 and 2020. There were no cash flows from net investment hedge settlements for the years ended May 31, 2021, 2020 and 2019.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITY

Cash provided (used) by operations was an inflow of $6,657 million for fiscal 2021 compared to $2,485 million for fiscal 2020. Net income, adjusted for non-cash items, generated $6,612 million of operating cash inflow for fiscal 2021 compared to $3,730 million for fiscal 2020. The increase primarily reflects the recovery of our business operations from the impact of COVID-19. The net change in working capital and other assets and liabilities resulted in an increase to Cash provided (used) by operations of $45 million for fiscal 2021, compared to a decrease of $1,245 million for fiscal 2020. The net change in working capital was impacted by a $2,361 million decrease in Inventories, driven by strong consumer demand as we return to healthy inventory levels across markets closed in the prior year due to COVID-19. An increase in Accounts Payable and Accrued Liabilities also contributed to the net change in working capital, primarily due to reduced spending in fiscal 2020 as a result of COVID-19. In addition, the net change in working capital was impacted by a $2,845 million increase in Accounts receivable, net, primarily driven by higher revenues in the fourth quarter of fiscal 2021.

Cash provided (used) by investing activities was an outflow of $3,800 million for fiscal 2021, compared to an outflow of $1,028 million for fiscal 2020, primarily driven by higher purchases of short-term investments. During fiscal 2021, the net change in investments (including sales, maturities and purchases) resulted in a cash outflow of $3,276 million compared to a cash inflow of $27 million in fiscal 2020. Additionally, during fiscal 2021, we continued investing in our infrastructure to support future growth, specifically focused around digital capabilities, our end-to-end technology foundation, our corporate facilities and improvements across our supply chain. In future periods, we expect to make annual capital expenditures of approximately 3% of annual revenues.

Cash provided (used) by financing activities was an outflow of $1,459 million for fiscal 2021 compared to an inflow of $2,491 million for fiscal 2020. This change was primarily due to the net proceeds from a $5,942 million corporate bond issuance in the fourth quarter of fiscal 2020, partially offset by lower share repurchases during fiscal 2021.

During the fourth quarter of fiscal 2020, to enhance our liquidity position in response to COVID-19, we elected to temporarily suspend share repurchases under our existing share repurchase program. The existing program remained authorized by the Board of Directors and during the fourth quarter of fiscal 2021, we began repurchasing shares under the program. In fiscal 2021, we purchased 4.9 million shares of NIKE's Class B Common Stock for $650 million (an average price of $133.54 per share) under the four-year, $15 billion share repurchase program approved by the Board of Directors in June 2018. As of May 31, 2021, we had repurchased 50.0 million shares at a cost of $4,669 million (an average price of $93.33 per share) under this program. We continue to expect funding of share repurchases will come from operating cash flows and excess cash. The timing and the amount of share repurchases will be dictated by our capital needs and stock market conditions.

CAPITAL RESOURCES

On July 23, 2019, we filed a shelf registration statement (the “Shelf”) with the U.S. Securities and Exchange Commission (SEC) which permits us to issue an unlimited amount of debt securities from time to time. The Shelf expires on July 23, 2022.

On August 16, 2019, we entered into a committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings, with the option to increase borrowings up to $3 billion in total upon lender approval. The facility matures on August 16, 2024, with a one-year extension option prior to any anniversary of the closing date, provided that in no event shall the facility extend beyond August 16, 2026. This facility replaces the prior $2 billion credit facility agreement entered into on August 28, 2015, which would have matured August 28, 2020. On March 15, 2021, we entered into a committed credit facility agreement with a syndicate of banks which provides for up to $1 billion of borrowings, with the option to increase borrowings up to $1.5 billion in total upon lender approval. The facility matures on March 14, 2022, with a 364-day extension option up to 30 days prior to the existing termination date, provided that in no event shall the facility extend beyond March 13, 2023. This facility replaces the prior $2 billion credit facility agreement entered into on April 6, 2020, which would have matured on April 5, 2021. As of May 31, 2021 and 2020, no amounts were outstanding under our committed credit facilities. Refer to Note 7 — Short-Term Borrowings and Credit Lines for additional information.

We currently have long-term debt ratings of AA- and A1 from Standard and Poor's Corporation and Moody's Investor Services, respectively. As it relates to our committed credit facilities entered into on August 16, 2019 and March 15, 2021, if our long-term debt ratings were to decline, the facility fees and interest rates would increase. Conversely, if our long-term debt ratings were to improve, the facility fees and interest rates would decrease. Changes in our long-term debt ratings would not trigger acceleration of maturity of any then-outstanding borrowings or any future borrowings under the committed credit facilities. Under these facilities, we have agreed to various covenants. These covenants include limits on our disposal of assets and the amount of debt secured by liens we may incur. In the event we were to have any borrowings outstanding under these facilities, 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 May 31, 2021, 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 was also provided by our $3 billion commercial paper program, which we decreased from $4 billion in connection with the new credit facility agreement, entered into on March 15, 2021, as described above. During the fiscal year ended May 31, 2021, the maximum amount of commercial paper borrowings outstanding at any point was $248 million. No commercial paper was outstanding as of May 31, 2021. As of May 31, 2020, we had $248 million of commercial paper outstanding at a weighted average interest rate of 1.65%.

We may continue to issue commercial paper or other debt securities 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.

To date, we have not experienced difficulty accessing the credit markets; however, future volatility in the capital markets may increase costs associated with issuing commercial paper or other debt instruments or affect our ability to access those markets.

As of May 31, 2021, we had cash, cash equivalents and short-term investments totaling $13.5 billion, primarily consisting of commercial paper, corporate notes, deposits held at major banks, money market funds, U.S. government sponsored enterprise obligations, U.S. Treasury 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 May 31, 2021, the weighted-average days to maturity of our cash equivalents and short-term investments portfolio was 54 days.

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 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 determine to repatriate indefinitely reinvested foreign funds or raise capital in the United States through debt. Given our existing structure, if we were to repatriate indefinitely reinvested foreign earnings, we would be required to accrue and pay withholding taxes in certain foreign jurisdictions.

OFF-BALANCE SHEET ARRANGEMENTS

In connection with various contracts and agreements, we routinely provide indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where we are acting as the guarantor. Currently, we have several such agreements in place. Based on our historical experience and the estimated probability of future loss, we have determined that the fair value of such indemnification is not material to our financial position or results of operations.

CONTRACTUAL OBLIGATIONS

Our significant long-term contractual obligations as of May 31, 2021, and significant endorsement contracts, including related marketing commitments, entered into through the date of this report are as follows:

DESCRIPTION OF COMMITMENT	CASH PAYMENTS DUE DURING THE YEAR ENDING MAY 31,						
(Dollars in millions)	**2022**	**2023**	**2024**	**2025**	**2026**	**THEREAFTER**	**TOTAL**
Operating Leases	$ 534	$ 530	$ 490	$ 437	$ 357	$ 1,397	$ 3,745
Long-Term Debt(1)	286	786	275	1,275	251	11,290	14,163
Endorsement Contracts(2)	1,502	1,244	1,091	966	726	2,863	8,392
Product Purchase Obligations(3)	6,448	—	—	—	—	—	6,448
Other Purchase Obligations(4)	1,347	541	331	191	96	230	2,736
Transition Tax Related to the Tax Cuts and Jobs Act(5)	86	86	161	215	268	—	816
TOTAL	**$ 10,203**	**$ 3,187**	**$ 2,348**	**$ 3,084**	**$ 1,698**	**$ 15,780**	**$ 36,300**

(1) The cash payments due for long-term debt include estimated interest payments. Estimates of interest payments are based on outstanding principal amounts, applicable fixed interest rates or currently effective interest rates as of May 31, 2021 (if variable), timing of scheduled payments and the term of the debt obligations.

(2) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, public figure, 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.

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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.

(3) We generally order product at least four to five months in advance of sale based primarily on advanced orders received from external wholesale customers and internal orders from our direct to consumer operations. The amounts listed for product purchase obligations represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and specify all significant terms. In some cases, prices are subject to change throughout the production process.

(4) Other purchase obligations primarily include construction, service and marketing commitments, including marketing commitments associated with endorsement contracts, made in the ordinary course of business. The amounts represent the minimum payments required by legally binding contracts and agreements that specify all significant terms, and may include open purchase orders for non-product purchases.

(5) Represents the future cash payments due as part of the transition tax on deemed repatriation of undistributed earnings of foreign subsidiaries, which is reflected net of foreign tax credits we utilized. Refer to Part II, Item 8. Financial Statements and Supplementary Data, Note 9 - Income Taxes, in our fiscal 2020 Form 10-K, which was filed with the United States Securities and Exchange Commission on July 24, 2020 for additional information.

In addition to the above, we have long-term obligations for uncertain tax positions and various post-retirement benefits for which we are not able to reasonably estimate when cash payments will occur. Refer to Note 9 — Income Taxes and Note 13 — Benefit Plans in the accompanying Notes to the Consolidated Financial Statements for further information related to uncertain tax positions and post-retirement benefits, respectively.

We also have the following outstanding short-term debt obligations as of May 31, 2021. Refer to Note 7 — Short-Term Borrowings and Credit Lines in the accompanying Notes to the Consolidated Financial Statements for further description and interest rates related to the short-term debt obligations listed below.

(Dollars in millions)	**MAY 31, 2021**
Notes payable, due at mutually agreed-upon dates within one year of issuance or on demand	$ 2

As of May 31, 2021, we had bank guarantees and letters of credit outstanding totaling $275 million, issued primarily for real estate agreements, self-insurance programs and other general business obligations.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for recently adopted accounting standards.

CRITICAL ACCOUNTING POLICIES

Our previous discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

We believe the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our Consolidated Financial Statements, so we consider these to be our critical accounting policies and estimates. Management has reviewed and discussed these critical accounting policies with the Audit & Finance Committee of the Board of Directors.

These policies require that we make estimates in the preparation of our Consolidated Financial Statements as of a given date. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

REVENUE RECOGNITION

Beginning in fiscal 2019, we adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). Our revenue recognition policies under Topic 606 are described in the following paragraphs.

Revenue transactions associated with the sale of NIKE Brand footwear, apparel and equipment, as well as Converse products, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. We satisfy the performance obligation and record revenues when transfer of control to the customer has occurred, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product. Control is transferred to wholesale customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. Control transfers to retail store customers at the time of sale and to substantially all digital commerce customers upon shipment. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers. Payment terms for wholesale transactions depend on the country of sale or agreement with the customer and payment is generally required within 90 days or less of shipment to or receipt by the wholesale customer. Payment is due at the time of sale for retail store and digital commerce transactions.

As part of our revenue recognition policy, consideration promised in our contracts with customers is variable due to anticipated reductions, such as sales returns, discounts and miscellaneous claims from customers. We estimate the most likely amount we will be entitled to receive and record an anticipated reduction against Revenues, with an offsetting increase to Accrued liabilities at the time revenues are recognized. The estimated cost of inventory for product returns is recorded in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly different than reserves established, a reduction or increase to net revenues would be recorded in the period in which such determination was made.

Refer also to Note 1 — Summary of Significant Accounting Policies and Note 16 — Revenues for additional information in the accompanying Notes to the Consolidated Financial Statements.

INVENTORY RESERVES

We make ongoing estimates relating to the net realizable value of inventories based upon our assumptions about future demand and market conditions. If we estimate the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated net realizable value. This reserve is recorded as a charge to Cost of sales. If changes in market conditions result in reductions to the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination.

CONTINGENT PAYMENTS UNDER ENDORSEMENT CONTRACTS

A significant amount of our Demand creation expense relates to payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g., winning a championship). We record demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When we determine payments are probable, the amounts are reported in Demand creation expense ratably over the contract period based on our best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from our estimate due to changes in the endorser's performance, adjustments to Demand creation expense may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which we record in Cost of sales as the related sales occur. For contracts containing minimum guaranteed royalty payments, we record the amount of any guaranteed payment in excess of that earned through sales of product within Demand creation expense.

PROPERTY, PLANT AND EQUIPMENT AND DEFINITE-LIVED ASSETS

We review the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies that would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

HEDGE ACCOUNTING FOR DERIVATIVES

We use derivative contracts to hedge certain anticipated foreign currency and interest rate transactions as well as certain non-functional currency monetary assets and liabilities. When the specific criteria to qualify for hedge accounting has been met, changes in the fair value of contracts hedging probable forecasted future cash flows are recorded in Accumulated other comprehensive income (loss), rather than Net income, until the underlying hedged transaction affects Net income. In most cases, this results in gains and losses on hedge derivatives being released from Accumulated other comprehensive income (loss) into Net income sometime after the maturity of the derivative. One of the criteria for this accounting treatment is that the notional value of these derivative contracts should not be in excess of the designated amount of anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When the designated amount of anticipated or actual transactions decline below hedged levels, or if it is no longer probable a forecasted transaction will occur by the end of the originally specified time period or within an additional two-month period of time thereafter, we are required to reclassify the cumulative change in fair value of the over-hedged portion of the related hedge contract from Accumulated other comprehensive income (loss) to Other (income) expense, net during the quarter in which the decrease occurs. In rare circumstances, the additional period of time may exceed two months due to extenuating circumstances related to the nature of the forecasted transaction that are outside our control or influence.

INCOME TAXES

We are subject to taxation in the United States, as well as various state and foreign jurisdictions. The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. On an interim basis, we estimate our effective tax rate for the full fiscal year. This estimated annual effective tax rate is then applied to the year-to-date Income before income taxes excluding infrequently occurring or unusual items, to determine the year-to-date Income tax expense. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs.

We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets (such as net operating loss carry-forwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our net deferred tax asset, which increases our Income tax expense in the period when such determination is made.

We have not recorded withholding tax expense for foreign earnings we have determined to be indefinitely reinvested within certain of our foreign jurisdictions. The amount of earnings indefinitely reinvested offshore is due to the actual deployment of such earnings in our offshore operations and our expectations of the future cash needs of our U.S. and foreign entities. Withholding tax consequences are also a factor in determining the amount of foreign earnings to be indefinitely reinvested offshore.

We carefully review all factors that drive the ultimate disposition of foreign earnings determined to be reinvested offshore and apply stringent standards to overcome the presumption of repatriation. Despite this approach, because the determination is based on expected working capital and other capital needs in jurisdictions where the earnings are generated, the possibility exists that foreign earnings declared as indefinitely reinvested may be repatriated. For instance, the actual cash needs of our U.S. operations may exceed our current expectations, or the actual cash needs of our foreign entities may be less than our current expectations. This would result in additional withholding tax expense in the year we determined amounts were no longer indefinitely reinvested offshore.

On a quarterly basis, we evaluate the probability a tax position will be effectively sustained and the appropriateness of the amount recognized for uncertain tax positions based on factors including changes in facts or circumstances, changes in tax law, settled audit issues and new audit activity. Changes in our assessment may result in the recognition of a tax benefit or an additional charge to the tax provision in the period our assessment changes. We recognize interest and penalties related to income tax matters in Income tax expense.

Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

OTHER CONTINGENCIES

In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. If future adjustments to estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred. In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility the ultimate loss will materially exceed the recorded liability. While we cannot predict the outcome of pending legal matters with certainty, we do not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on our results of operations, financial position or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business and consistent with established policies and procedures, we employ a variety of financial instruments to manage exposure to fluctuations in the value of foreign currencies and interest rates. It is our policy to utilize these financial instruments only where necessary to finance our business and manage such exposures; we do not enter into these transactions for trading or speculative purposes.

We are exposed to foreign currency fluctuations, primarily as a result of our international sales, product sourcing and funding activities. 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 use forward and option contracts to hedge certain anticipated, but not yet firmly committed, transactions as well as certain firm commitments and the related receivables and payables, including third-party and intercompany transactions. We have, in the past, and may in the future, also use forward or options contracts to hedge our investment in the net assets of certain international subsidiaries to offset foreign currency translation adjustments related to our net investment in those subsidiaries. Where exposures are hedged, our program has the effect of delaying the impact of exchange rate movements on our Consolidated Financial Statements.

The timing for hedging exposures, as well as the type and duration of the hedge instruments employed, are guided by our hedging policies and determined based upon the nature of the exposure and prevailing market conditions. 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 majority of derivatives outstanding as of May 31, 2021, are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Chinese Yuan/U.S. Dollar and Japanese Yen/U.S. Dollar currency pairs. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional information.

Our earnings are also exposed to movements in short- and long-term market interest rates. Our objective in managing this interest rate exposure is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve these objectives, we maintain a mix of commercial paper, bank loans, and fixed-rate debt of varying maturities.

MARKET RISK MEASUREMENT

We monitor foreign exchange risk, interest rate risk and related derivatives using a variety of techniques including a review of market value, sensitivity analysis and Value-at-Risk ("VaR"). Our market-sensitive derivative and other financial instruments are foreign currency forward contracts, foreign currency option contracts, intercompany loans denominated in non-functional currencies and fixed interest rate U.S. Dollar denominated debt.

We use VaR to monitor the foreign exchange risk of our foreign currency forward and foreign currency option derivative instruments only. The VaR determines the maximum potential one-day loss in the fair value of these foreign exchange rate-sensitive financial instruments. The VaR model estimates assume normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the VaR computation. Our computations are based on interrelationships between currencies and interest rates (a "variance/co-variance" technique). These interrelationships are a function of foreign exchange currency market changes and interest rate changes over the preceding one-year period. The value of foreign currency options does not change on a one-to-one basis with changes in the underlying currency rate. We adjust the potential loss in option value for the estimated sensitivity (the "delta" and "gamma") to changes in the underlying currency rate. This calculation reflects the impact of foreign currency rate fluctuations on the derivative instruments only and does not include the impact of such rate fluctuations on non-functional currency transactions (such as anticipated transactions, firm commitments, cash balances and accounts and loans receivable and payable), including those which are hedged by these instruments.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value we will incur nor does it consider the potential effect of favorable changes in market rates. It also does not represent the full extent of the possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in fair value on our foreign currency sensitive derivative financial instruments, derived using the VaR model, was $92 million and $48 million as of May 31, 2021 and 2020, respectively. The VaR increased year-over-year as a result of an increase in foreign currency volatilities as of May 31, 2021. Such a hypothetical loss in the fair value of our derivatives would be offset by increases in the value of the underlying transactions being hedged. The average monthly change in the fair values of foreign currency forward and foreign currency option derivative instruments was $184 million and $126 million during fiscal 2021 and fiscal 2020, respectively.

The instruments not included in the VaR are intercompany loans denominated in non-functional currencies and fixed interest rate U.S. Dollar denominated debt. Intercompany loans and related interest amounts are eliminated in consolidation. Furthermore, our non-functional currency intercompany loans are substantially hedged against foreign exchange risk through the use of forward contracts, which are included in the VaR calculation above. Therefore, we consider the interest rate and foreign currency market risks associated with our non-functional currency intercompany loans to be immaterial to our consolidated financial position, results of operations and cash flows.

Details of third-party debt are provided in the table below. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

	EXPECTED MATURITY DATE YEAR ENDING MAY 31,							
(Dollars in millions)	**2022**	**2023**	**2024**	**2025**	**2026**	**THEREAFTER**	**TOTAL**	**FAIR VALUE**
Interest Rate Risk								
Long-term U.S. Dollar debt — Fixed rate								
Principal payments	$ —	$ 500	$ —	$ 1,000	$ —	$ 8,000	$ 9,500	$ 10,275
Average interest rate	0.0 %	2.3 %	0.0 %	2.4 %	0.0 %	3.1 %	3.0 %	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management of NIKE, Inc. is responsible for the information and representations contained in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include certain amounts based on our best estimates and judgments. Other financial information in this report is consistent with these financial statements.

Our accounting systems include controls designed to reasonably assure assets are safeguarded from unauthorized use or disposition and provide for the preparation of financial statements in conformity with U.S. GAAP. These systems are supplemented by the selection and training of qualified financial personnel and an organizational structure providing for appropriate segregation of duties.

An internal corporate audit department reviews the results of its work with the Audit & Finance Committee of the Board of Directors, presently comprised of three outside, independent directors. The Audit & Finance Committee is responsible for the appointment of the independent registered public accounting firm and reviews, with the independent registered public accounting firm, management and the internal corporate audit staff, the scope and the results of the annual audit, the effectiveness of the accounting control system and other matters relating to the financial affairs of NIKE as the Audit & Finance Committee deems appropriate. The independent registered public accounting firm and the internal corporate auditors have full access to the Audit & Finance Committee, with and without the presence of management, to discuss any appropriate matters.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a) - 15(f) and Rule 15(d) - 15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets of the Company that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of May 31, 2021.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited (1) the Consolidated Financial Statements and (2) the effectiveness of our internal control over financial reporting as of May 31, 2021, as stated in their report herein.

John J. Donahoe II
President and Chief Executive Officer

Matthew Friend
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NIKE, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NIKE, Inc. and its subsidiaries (the "Company") as of May 31, 2021 and 2020, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended May 31, 2021, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of May 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of June 1, 2019 and the manner in which it accounts for revenue from contracts with customers and the manner in which it accounts for income taxes related to intra-entity transfers other than inventory as of June 1, 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for Income Taxes

As described in Notes 1 and 9 to the consolidated financial statements, the Company recorded income tax expense of $934 million for the year ended May 31, 2021, and has net deferred tax assets of $1,133 million, including a valuation allowance of $12 million, and total gross unrecognized tax benefits, excluding related interest and penalties, of $896 million as of May 31, 2021, $609 million of which would affect the Company's effective tax rate if recognized in future periods. The realization of deferred tax assets is dependent on future taxable earnings. Management assesses the scheduled reversal of deferred tax liabilities, projected future taxable income and available tax planning strategies and considers foreign tax credit utilization in making this assessment of realization. A valuation allowance is established against the net deferred tax asset to the extent that recovery is not likely. The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. As disclosed by management, the use of significant judgment and estimates, as well as the interpretation and application of complex tax laws is required by management to determine the Company's provision for income taxes.

The principal considerations for our determination that performing procedures relating to the accounting for income taxes is a critical audit matter are the high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to (i) management's assessment of complex tax laws and regulations, including recent court rulings, as it relates to determining the provision for income taxes and other tax positions, and (ii) management's assessment of realizability of deferred tax assets, specifically around future taxable income, foreign tax credit utilization and available tax planning strategies. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matters involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the provision for income taxes and other tax positions, including controls over management's assessments of the realizability of deferred tax assets. These procedures also included, among others, evaluating the effect on the Company's tax provision of changes in its legal entity structure, evaluating changes in and compliance with tax laws, and testing management's tax calculations including the Company's forecast of future taxable income, tax planning strategies, and foreign tax credit utilization of deferred tax assets. Professionals with specialized skill and knowledge were used to assist in evaluating the application of relevant tax laws, the provision for income taxes and the reasonableness of management's assessments of whether certain tax positions are more-likely-than-not of being sustained.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 20, 2021

We have served as the Company's auditor since 1974.

NIKE, INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED MAY 31,		
(In millions, except per share data)	**2021**	**2020**	**2019**
Revenues	$ 44,538	$ 37,403	$ 39,117
Cost of sales	24,576	21,162	21,643
Gross profit	19,962	16,241	17,474
Demand creation expense	3,114	3,592	3,753
Operating overhead expense	9,911	9,534	8,949
Total selling and administrative expense	13,025	13,126	12,702
Interest expense (income), net	262	89	49
Other (income) expense, net	14	139	(78)
Income before income taxes	6,661	2,887	4,801
Income tax expense	934	348	772
NET INCOME	**$ 5,727**	**$ 2,539**	**$ 4,029**
Earnings per common share:			
Basic	$ 3.64	$ 1.63	$ 2.55
Diluted	$ 3.56	$ 1.60	$ 2.49
Weighted average common shares outstanding:			
Basic	1,573.0	1,558.8	1,579.7
Diluted	1,609.4	1,591.6	1,618.4

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

NIKE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)	YEAR ENDED MAY 31, 2021	2020	2019
Net income	$ 5,727	$ 2,539	$ 4,029
Other comprehensive income (loss), net of tax:			
Change in net foreign currency translation adjustment	496	(148)	(173)
Change in net gains (losses) on cash flow hedges	(825)	(130)	503
Change in net gains (losses) on other	5	(9)	(7)
Total other comprehensive income (loss), net of tax	(324)	(287)	323
TOTAL COMPREHENSIVE INCOME	**$ 5,403**	**$ 2,252**	**$ 4,352**

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

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NIKE, INC.

CONSOLIDATED BALANCE SHEETS

(In millions)	MAY 31, 2021	MAY 31, 2020
ASSETS		
Current assets:		
Cash and equivalents	$ 9,889	$ 8,348
Short-term investments	3,587	439
Accounts receivable, net	4,463	2,749
Inventories	6,854	7,367
Prepaid expenses and other current assets	1,498	1,653
Total current assets	26,291	20,556
Property, plant and equipment, net	4,904	4,866
Operating lease right-of-use assets, net	3,113	3,097
Identifiable intangible assets, net	269	274
Goodwill	242	223
Deferred income taxes and other assets	2,921	2,326
TOTAL ASSETS	**$ 37,740**	**$ 31,342**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ —	$ 3
Notes payable	2	248
Accounts payable	2,836	2,248
Current portion of operating lease liabilities	467	445
Accrued liabilities	6,063	5,184
Income taxes payable	306	156
Total current liabilities	9,674	8,284
Long-term debt	9,413	9,406
Operating lease liabilities	2,931	2,913
Deferred income taxes and other liabilities	2,955	2,684
Commitments and contingencies (Note 18)		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 305 and 315 shares outstanding	—	—
Class B — 1,273 and 1,243 shares outstanding	3	3
Capital in excess of stated value	9,965	8,299
Accumulated other comprehensive income (loss)	(380)	(56)
Retained earnings (deficit)	3,179	(191)
Total shareholders' equity	12,767	8,055
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 37,740**	**$ 31,342**

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

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NIKE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	YEAR ENDED MAY 31, 2021	2020	2019
Cash provided (used) by operations:			
Net income	$ 5,727	$ 2,539	$ 4,029
Adjustments to reconcile net income to net cash provided (used) by operations:			
Depreciation	744	721	705
Deferred income taxes	(385)	(380)	34
Stock-based compensation	611	429	325
Amortization, impairment and other	53	398	15
Net foreign currency adjustments	(138)	23	233
Changes in certain working capital components and other assets and liabilities:			
(Increase) decrease in accounts receivable	(1,606)	1,239	(270)
(Increase) decrease in inventories	507	(1,854)	(490)
(Increase) decrease in prepaid expenses, operating lease right-of-use assets and other current and non-current assets	(182)	(654)	(203)
Increase (decrease) in accounts payable, accrued liabilities, operating lease liabilities and other current and non-current liabilities	1,326	24	1,525
Cash provided (used) by operations	6,657	2,485	5,903
Cash provided (used) by investing activities:			
Purchases of short-term investments	(9,961)	(2,426)	(2,937)
Maturities of short-term investments	4,236	74	1,715
Sales of short-term investments	2,449	2,379	2,072
Additions to property, plant and equipment	(695)	(1,086)	(1,119)
Other investing activities	171	31	5
Cash provided (used) by investing activities	(3,800)	(1,028)	(264)
Cash provided (used) by financing activities:			
Proceeds from borrowings, net of debt issuance costs	—	6,134	—
Increase (decrease) in notes payable, net	(52)	49	(325)
Repayment of borrowings	(197)	(6)	(6)
Proceeds from exercise of stock options and other stock issuances	1,172	885	700
Repurchase of common stock	(608)	(3,067)	(4,286)
Dividends — common and preferred	(1,638)	(1,452)	(1,332)
Other financing activities	(136)	(52)	(44)
Cash provided (used) by financing activities	(1,459)	2,491	(5,293)
Effect of exchange rate changes on cash and equivalents	143	(66)	(129)
Net increase (decrease) in cash and equivalents	1,541	3,882	217
Cash and equivalents, beginning of year	8,348	4,466	4,249
CASH AND EQUIVALENTS, END OF YEAR	**$ 9,889**	**$ 8,348**	**$ 4,466**
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 293	$ 140	$ 153
Income taxes	1,177	1,028	757
Non-cash additions to property, plant and equipment	179	121	160
Dividends declared and not paid	438	385	347

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

NIKE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share data)	COMMON STOCK CLASS A SHARES	CLASS A AMOUNT	COMMON STOCK CLASS B SHARES	CLASS B AMOUNT	CAPITAL IN EXCESS OF STATED VALUE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance at May 31, 2018	**329**	**$ —**	**1,272**	**$ 3**	**$ 6,384**	**$ (92)**	**$ 3,517**	**$ 9,812**
Stock options exercised			18		539			539
Conversion to Class B Common Stock	(14)		14					—
Repurchase of Class B Common Stock			(54)		(227)		(4,056)	(4,283)
Dividends on common stock ($0.86 per share) and preferred stock ($0.10 per share)							(1,360)	(1,360)
Issuance of shares to employees, net of shares withheld for employee taxes			3		142		(3)	139
Stock-based compensation					325			325
Net income							4,029	4,029
Other comprehensive income (loss)						323		323
Adoption of ASU 2016-16 (Note 1)							(507)	(507)
Adoption of ASC Topic 606 (Note 1)							23	23
Balance at May 31, 2019	**315**	**$ —**	**1,253**	**$ 3**	**$ 7,163**	**$ 231**	**$ 1,643**	**$ 9,040**
Stock options exercised			20		703			703
Repurchase of Class B Common Stock			(34)		(161)		(2,872)	(3,033)
Dividends on common stock ($0.955 per share) and preferred stock ($0.10 per share)							(1,491)	(1,491)
Issuance of shares to employees, net of shares withheld for employee taxes			4		165		(9)	156
Stock-based compensation					429			429
Net income							2,539	2,539
Other comprehensive income (loss)						(287)		(287)
Adoption of ASC Topic 842 (Note 1)							(1)	(1)
Balance at May 31, 2020	**315**	**$ —**	**1,243**	**$ 3**	**$ 8,299**	**$ (56)**	**$ (191)**	**$ 8,055**
Stock options exercised			21		954			954
Conversion to Class B Common Stock	(10)		10					—
Repurchase of Class B Common Stock			(5)		(28)		(622)	(650)
Dividends on common stock ($1.070 per share) and preferred stock ($0.10 per share)							(1,692)	(1,692)
Issuance of shares to employees, net of shares withheld for employee taxes			4		129		(43)	86
Stock-based compensation					611			611
Net income							5,727	5,727
Other comprehensive income (loss)						(324)		(324)
Balance at May 31, 2021	**305**	**$ —**	**1,273**	**$ 3**	**$ 9,965**	**$ (380)**	**$ 3,179**	**$ 12,767**

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley, prior to its divestiture in fiscal 2020, and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across a wide range of sport categories, amplified with sport-inspired lifestyle products carrying the Swoosh trademark, as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories using the Jumpman trademark. Sales and operating results of Jordan Brand products are reported within the respective NIKE Brand geographic operating segments. Sales and operating results of Hurley brand products, prior to its divestiture in fiscal 2020, were reported within the NIKE Brand's North America geographic operating segment. Refer to Note 20 — Acquisitions and Divestitures for information regarding the divestiture of the Company's wholly-owned subsidiary, Hurley. Converse designs, distributes, licenses and sells casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. In some markets outside the U.S., these trademarks are licensed to third parties who design, distribute, market and sell similar products. Operating results of the Converse brand are reported on a stand-alone basis.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of NIKE, Inc. and its subsidiaries (the "Company" or "NIKE"). All significant intercompany transactions and balances have been eliminated.

REVENUE RECOGNITION

Beginning in fiscal 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company's revenue recognition policies under Topic 606 are described in the following paragraphs.

Revenue transactions associated with the sale of NIKE Brand footwear, apparel and equipment, as well as Converse products, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. The Company satisfies the performance obligation and records revenues when transfer of control to the customer has occurred, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product.

Control is transferred to wholesale customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. Control transfers to retail store customers at the time of sale and to substantially all digital commerce customers upon shipment. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers. Payment terms for wholesale transactions depend on the country of sale or agreement with the customer and payment is generally required within 90 days or less of shipment to or receipt by the wholesale customer. Payment is due at the time of sale for retail store and digital commerce transactions.

Consideration for trademark licensing contracts is earned through sales-based or usage-based royalty arrangements, and the associated revenues are recognized over the license period.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, and are collected by the Company from a customer, are excluded from Revenues and Cost of sales in the Consolidated Statements of Income. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in Cost of sales when the related revenues are recognized.

SALES-RELATED RESERVES

Consideration promised in the Company's contracts with customers is variable due to anticipated reductions, such as sales returns, discounts and miscellaneous claims from customers. The Company estimates the most likely amount it will be entitled to receive and records an anticipated reduction against Revenues, with an offsetting increase to Accrued liabilities at the time revenues are recognized. The estimated cost of inventory for product returns is recorded in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from estimates recorded. If actual or expected future returns, discounts or claims are significantly greater or lower than the reserves established, a reduction or increase to net Revenues is recorded in the period in which such determination is made.

COST OF SALES

Cost of sales consists primarily of inventory costs, as well as warehousing costs (including the cost of warehouse labor), third-party royalties, certain foreign currency hedge gains and losses and product design costs. Shipping and handling costs are expensed as incurred and included in Cost of sales.

DEMAND CREATION EXPENSE

Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, complimentary products, television, digital and print advertising and media costs, brand events and retail brand presentation. Advertising production costs are expensed the first time an advertisement is run. Advertising media costs are expensed when the advertisement appears. Costs related to brand events are expensed when the event occurs. Costs related to retail brand presentation are expensed when the presentation is complete and delivered.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contracts contain elements that may be accounted for differently based upon the facts and circumstances of each individual contract. Prepayments made under contracts are included in Prepaid expenses and other current assets or Deferred income taxes and other assets depending on the period to which the prepayment applies.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sport (e.g., winning a championship). The Company records Demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When the Company determines payments are probable, the amounts are reported in Demand creation expense ratably over the contract period based on the Company's best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from the Company's estimate due to changes in the endorser's performance, adjustments to Demand creation expense may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which the Company records in Cost of sales as the related sales occur. For contracts containing minimum guaranteed royalty payments, the Company records the amount of any guaranteed payment in excess of that earned through sales of product within Demand creation expense.

Through cooperative advertising programs, the Company reimburses its wholesale customers for certain costs of advertising the Company's products. The Company records these costs in Demand creation expense at the point in time it is obligated to its customers for the costs. This obligation may arise prior to the related advertisement being run.

Total advertising and promotion expenses, which the Company refers to as Demand creation expense, were $3,114 million, $3,592 million and $3,753 million for the years ended May 31, 2021, 2020 and 2019, respectively. Prepaid advertising and promotion expenses totaled $630 million and $686 million at May 31, 2021 and 2020, respectively, of which $338 million and $326 million, respectively, were recorded in Prepaid expenses and other current assets, and $292 million and $360 million, respectively, were recorded in Deferred income taxes and other assets, depending on the period to which the prepayment applied.

OPERATING OVERHEAD EXPENSE

Operating overhead expense consists primarily of wage and benefit-related expenses, research and development costs, bad debt expense as well as other administrative expenses such as rent, depreciation and amortization, professional services, meetings and travel.

CASH AND EQUIVALENTS

Cash and equivalents represent cash and short-term, highly liquid investments, that are both readily convertible to known amounts of cash, and so near their maturity they present insignificant risk of changes in value because of changes in interest rates, including commercial paper, U.S. Treasury, U.S. Agency, money market funds, time deposits and corporate debt securities with maturities of 90 days or less at the date of purchase.

SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid investments, including commercial paper, U.S. Treasury, U.S. Agency, time deposits and corporate debt securities with maturities over 90 days at the date of purchase. At May 31, 2021 and 2020, Short-term investments consisted of available-for-sale debt securities, which are recorded at fair value with unrealized gains and losses reported, net of tax, in Accumulated other comprehensive income (loss), unless unrealized losses are determined to be unrecoverable. Realized gains and losses on the sale of securities are determined by specific identification. The Company considers all available-for-sale debt securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and, therefore, classifies all securities with maturity dates beyond 90 days at the date of purchase as current assets within Short-term investments on the Consolidated Balance Sheets.

Refer to Note 6 — Fair Value Measurements for more information on the Company's Short-term investments.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Accounts receivable, net consist primarily of amounts due from customers. The Company makes ongoing estimates relating to the collectability of its accounts receivable and maintains an allowance for expected losses resulting from the inability of its customers to make required payments. In addition to judgments about the creditworthiness of significant customers based on ongoing credit evaluations, the Company considers historical levels of credit losses, as well as macroeconomic and industry trends, such as the impacts of COVID–19, to determine the amount of the allowance. Accounts receivable with anticipated collection dates greater than 12 months from the balance sheet date and related allowances are considered non-current and recorded in Deferred income taxes and other assets. The allowance for uncollectible accounts receivable was $93 million and $214 million as of May 31, 2021 and 2020, respectively.

INVENTORY VALUATION

Inventories are stated at lower of cost and net realizable value, and valued on either an average or a specific identification cost basis. In some instances, the Company ships products directly from its suppliers to the customer, with the related inventory and cost of sales recognized on a specific identification basis. Inventory costs primarily consist of product cost from the Company's suppliers, as well as inbound freight, import duties, taxes, insurance, logistics and other handling fees.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost. Depreciation is determined on a straight-line basis for land improvements, buildings and leasehold improvements over 2 to 40 years and for machinery and equipment over 2 to 15 years.

Depreciation and amortization of assets used in manufacturing, warehousing and product distribution are recorded in Cost of sales. Depreciation and amortization of all other assets are recorded in Operating overhead expense.

SOFTWARE DEVELOPMENT COSTS

Expenditures for major software purchases and software developed for internal use are capitalized and amortized over a 2- to 12-year period on a straight-line basis. The Company's policy provides for the capitalization of external direct costs associated with developing or obtaining internal use computer software. The Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer software projects. The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred.

Development costs of computer software to be sold, leased or otherwise marketed as an integral part of a product are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established; therefore, software development costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally, most software development costs have been expensed as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

The Company performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or an intangible asset with an indefinite life below its carrying value. Events or changes in circumstances that may trigger interim impairment reviews include significant changes in business climate, operating results, planned investments in the reporting unit, planned divestitures or an expectation that the carrying amount may not be recoverable, among other factors.

For purposes of testing goodwill for impairment, the Company allocates goodwill across its reporting units, which are considered the Company's operating segments. The Company may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, an impairment test is unnecessary. If an impairment test is necessary, the Company will estimate the fair value of its related reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is determined to be impaired and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

Indefinite-lived intangible assets primarily consist of acquired trade names and trademarks. The Company may first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the indefinite-lived intangible asset is not impaired, no quantitative fair value measurement is necessary. If a quantitative fair value measurement calculation is required for these intangible assets, the Company primarily utilizes the relief-from-royalty method. This method assumes trade names and trademarks have value to the extent their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires the Company to estimate the future revenues for the related brands, the appropriate royalty rate and the weighted average cost of capital. If the carrying value of the indefinite-lived intangible exceeds its fair value, the asset is determined to be impaired, and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

OPERATING LEASES

Beginning in fiscal 2020, the Company adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Periods prior to fiscal 2020 have not been restated and continue to be reported in accordance with the Company's historical accounting policies. The Company's lease recognition policies under Topic 842 are described in the following paragraphs.

The Company primarily leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets. The Company determines if an arrangement is a lease at inception and begins recording lease activity at the commencement date, which is generally the date in which the Company takes possession of or controls the physical use of the asset. Lease components are not separated from nonlease components for real estate leases within the Company's lease portfolio. Right-of-use (ROU) assets and lease liabilities are recognized based on the present value of lease payments over the lease term with lease expense recognized on a straight-line basis. The Company's incremental borrowing rate is used to determine the present value of future lease payments unless the implicit rate is readily determinable.

Lease agreements may contain rent escalation clauses, renewal or termination options, rent holidays or certain landlord incentives, including tenant improvement allowances. ROU assets include amounts for scheduled rent increases and are reduced by the amount of lease incentives. The lease term includes the non-cancelable period of the lease and options to extend or terminate the lease when it is reasonably certain the Company will exercise those options. The Company does not record leases with an initial term of 12 months or less on the Consolidated Balance Sheets, and recognizes related lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term. Certain lease agreements include variable lease payments, which are based on a percent of retail sales over specified levels or adjust periodically for inflation as a result of changes in a published index, primarily the Consumer Price Index, and are expensed as incurred.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivatives, equity securities and available-for-sale debt 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 a three-level hierarchy established by the Financial Accounting Standards Board (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 or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs with 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 a majority of 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 its counterparties.

The Company's fair value measurement process includes comparing fair values to another independent pricing vendor to ensure appropriate fair values are recorded.

Refer to Note 6 — Fair Value Measurements for additional information.

FOREIGN CURRENCY TRANSLATION AND FOREIGN CURRENCY TRANSACTIONS

Adjustments resulting from translating foreign functional currency financial statements into U.S. Dollars are included in the foreign currency translation adjustment, a component of Accumulated other comprehensive income (loss) in Total shareholders' equity.

The Company's global subsidiaries have various monetary assets and liabilities, primarily receivables and payables, which are denominated in currencies other than their functional currency. These balance sheet items are subject to remeasurement, the impact of which is recorded in Other (income) expense, net, within the Consolidated Statements of Income.

ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to reduce its exposure to changes in foreign currency exchange rates and interest rates. All derivatives are recorded at fair value on the Consolidated Balance Sheets and changes in the fair value of derivative financial instruments are either recognized in Accumulated other comprehensive income (loss) (a component of Total shareholders' equity), Long-term debt or Net income depending on the nature of the underlying exposure, whether the derivative is formally designated as a hedge and, if designated, the extent to which the hedge is effective. The Company classifies the cash flows at settlement from derivatives in the same category as the cash flows from the related hedged items. For undesignated hedges and designated cash flow hedges, this is primarily within the Cash provided by operations component of the Consolidated Statements of Cash Flows. For designated net investment hedges, this is within the Cash used by investing activities component of the Consolidated Statements of Cash Flows. For the Company's fair value hedges, which are interest rate swaps used to mitigate the change in fair value of its fixed-rate debt attributable to changes in interest rates, the related cash flows from periodic interest payments are reflected within the Cash provided by operations component of the Consolidated Statements of Cash Flows. Refer to Note 14 — Risk Management and Derivatives for additional information on the Company's risk management program and derivatives.

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation by estimating the fair value, net of estimated forfeitures, of equity awards and recognizing the related expense as Cost of sales or Operating overhead expense, as applicable, in the Consolidated Statements of Income on a straight-line basis over the vesting period. Substantially all awards vest ratably over four years of continued employment, with stock options expiring 10 years from the date of grant. The fair value of options, stock appreciation rights and employees' purchase rights under the employee stock purchase plans (ESPPs) is determined using the Black-Scholes option pricing model. The fair value of restricted stock and restricted stock units is established by the market price on the date of grant.

Refer to Note 11 — Common Stock and Stock-Based Compensation for additional information on the Company's stock-based compensation programs.

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company records a valuation allowance to reduce deferred tax assets to the amount management believes is more likely than not to be realized. Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. At least quarterly, the Company assesses taxable income in prior carryback periods, the scheduled reversal of deferred tax liabilities, projected future taxable income and available tax planning strategies. The Company uses forecasts of taxable income and considers foreign tax credit utilization in making this assessment of realization, which are inherently uncertain and can result in significant variation between estimated and actual results. To the extent the Company believes that recovery is not likely, a valuation allowance is established against the net deferred tax asset, which increases the Company’s income tax expense in the period when such determination is made.

The Company recognizes a tax benefit from uncertain tax positions in the financial statements only when it is more likely than not the position will be sustained upon examination by relevant tax authorities. The Company recognizes interest and penalties related to income tax matters in Income tax expense.

Refer to Note 9 — Income Taxes for further discussion.

EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing Net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive stock options and awards.

Refer to Note 12 — Earnings Per Share for further discussion.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Additionally, the extent to which the evolving COVID-19 pandemic impacts the Company's financial statements will depend on a number of factors, including the magnitude and duration of the pandemic. There remains risk that COVID-19 could have a material, adverse impact on future revenue growth as well as overall profitability and may lead to higher than normal inventory levels in various markets, adverse impacts on the global supply chain, revised payment terms with certain wholesale customers, higher sales-related reserves, factory cancellation costs and a volatile effective tax rate driven by changes in the mix of earnings across the Company's jurisdictions.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The updated guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company adopted the standard on June 1, 2018, using a modified retrospective approach, with the cumulative effect of applying the new standard recognized in Retained earnings at the date of adoption. The adoption resulted in reductions to Retained earnings, Deferred income taxes and other assets and Prepaid expenses and other current assets of $507 million, $422 million and $45 million, respectively, and an increase in Deferred income taxes and other liabilities of $40 million on the Consolidated Balance Sheets.

NOTE 2 — INVENTORIES

Inventory balances of $6,854 million and $7,367 million as of May 31, 2021 and 2020, respectively, were substantially all finished goods.

NOTE 3 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net included the following:

	MAY 31,	
(Dollars in millions)	2021	2020
Land and improvements	$ 363	$ 345
Buildings	3,365	2,442
Machinery and equipment	3,023	2,751
Internal-use software	1,391	1,483
Leasehold improvements	1,608	1,554
Construction in process	311	1,086
Total property, plant and equipment, gross	10,061	9,661
Less accumulated depreciation	5,157	4,795
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,904**	**$ 4,866**

Capitalized interest was not material for the years ended May 31, 2021, 2020 and 2019.

NOTE 4 — IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets, net consist of indefinite-lived trademarks, acquired trademarks and other intangible assets. The following table summarizes the Company's Identifiable intangible assets, net balances as of May 31, 2021 and 2020:

	MAY 31,					
	2021			2020		
(Dollars in millions)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Indefinite-lived trademarks	$ 246	$ —	$ 246	$ 246	$ —	$ 246
Acquired trademarks and other	50	27	23	47	19	28
IDENTIFIABLE INTANGIBLE ASSETS, NET	**$ 296**	**$ 27**	**$ 269**	**$ 293**	**$ 19**	**$ 274**

Goodwill was $242 million and $223 million as of May 31, 2021 and 2020, respectively, and there were no accumulated impairment losses as of May 31, 2021 and 2020. Additionally, the impact to Goodwill during fiscal 2021 and 2020 as a result of acquisitions and divestitures was not material.

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NOTE 5 — ACCRUED LIABILITIES

Accrued liabilities included the following:

	MAY 31,	
(Dollars in millions)	2021	2020
Compensation and benefits, excluding taxes	$ 1,472	$ 1,248
Sales-related reserves	1,077	1,178
Allowance for expected loss on sale[1]	358	405
Other	3,156	2,353
TOTAL ACCRUED LIABILITIES	**$ 6,063**	**$ 5,184**

(1) Refer to Note 20 — Acquisitions and Divestitures for additional information.

NOTE 6 — FAIR VALUE MEASUREMENTS

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of May 31, 2021 and 2020, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement. Refer to Note 1 — Summary of Significant Accounting Policies for additional detail regarding the Company's fair value measurement methodology.

	MAY 31, 2021		
(Dollars in millions)	ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS
Cash	$ 840	$ 840	$ —
Level 1:			
U.S. Treasury securities	2,892	—	2,892
Level 2:			
Commercial paper and bonds	748	57	691
Money market funds	7,701	7,701	—
Time deposits	1,293	1,291	2
U.S. Agency securities	2	—	2
Total Level 2	9,744	9,049	695
TOTAL	**$ 13,476**	**$ 9,889**	**$ 3,587**

	MAY 31, 2020		
(Dollars in millions)	**ASSETS AT FAIR VALUE**	**CASH AND EQUIVALENTS**	**SHORT-TERM INVESTMENTS**
Cash	$ 596	$ 596	$ —
Level 1:			
U.S. Treasury securities	1,204	800	404
Level 2:			
Commercial paper and bonds	32	—	32
Money market funds	5,973	5,973	—
Time deposits	981	979	2
U.S. Agency securities	1	—	1
Total Level 2	6,987	6,952	35
TOTAL	**$ 8,787**	**$ 8,348**	**$ 439**

As of May 31, 2021, the Company held $2,993 million of available-for-sale debt securities with maturity dates within one year and $594 million with maturity dates over one year and less than five years in Short-term investments on the Consolidated Balance Sheets. The fair value of the Company's available-for-sale debt securities approximates their amortized cost.

Included in Interest expense (income), net was interest income related to the Company's investment portfolio of $34 million, $62 million and $82 million for the years ended May 31, 2021, 2020 and 2019, respectively.

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The Company records the assets and liabilities of its derivative financial instruments on a gross basis on the 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. Any amounts of cash collateral posted related to these instruments associated with the Company's credit-related contingent features are recorded in Prepaid expenses and other current assets, which would further offset against the Company's derivative liability balance. 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 Consolidated Statements of Cash Flows. The Company does not recognize amounts of non-cash collateral received, such as securities, on the Consolidated Balance Sheets. For further information related to credit risk, refer to Note 14 — Risk Management and Derivatives.

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement:

	MAY 31, 2021					
	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
(Dollars in millions)	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[(1)]	$ 92	$ 76	$ 16	$ 456	$ 415	$ 41
Embedded derivatives	—	—	—	1	1	—
TOTAL	**$ 92**	**$ 76**	**$ 16**	**$ 457**	**$ 416**	**$ 41**

(1) 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 $93 million as of May 31, 2021. As of that date, the Company had posted $39 million of cash collateral to various counterparties related to foreign exchange derivative instruments. No amount of collateral was received on the Company's derivative asset balance as of May 31, 2021.

	MAY 31, 2020					
	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
(Dollars in millions)	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[(1)]	$ 94	$ 91	$ 3	$ 205	$ 188	$ 17
Embedded derivatives	1	1	—	2	2	—
TOTAL	**$ 95**	**$ 92**	**$ 3**	**$ 207**	**$ 190**	**$ 17**

(1) 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 $76 million as of May 31, 2020. As of that date, no amount of cash collateral had been received or posted on the derivative asset and liability balances related to these foreign exchange derivative instruments.

For additional information related to the Company's derivative financial instruments, refer to Note 14 — Risk Management and Derivatives. For fair value information regarding Notes payable and Long-term debt, refer to Note 7 — Short-Term Borrowings and Credit Lines and Note 8 — Long-Term Debt, respectively.

The carrying amounts of other current financial assets and other current financial liabilities approximate fair value.

NON-RECURRING FAIR VALUE MEASUREMENTS

As further discussed in Note 20 — Acquisitions and Divestitures, during fiscal 2020, the Company met the criteria to recognize the related assets and liabilities of its Brazil, Argentina, Chile and Uruguay entities as held-for-sale. This required the Company to remeasure the disposal groups at fair value, less costs to sell, which is considered a Level 3 fair value measurement and was based on each transaction's estimated consideration. During fiscal 2021, the Company continued to use estimated consideration to measure the fair value of each disposal group.

All other assets or liabilities required to be measured at fair value on a non-recurring basis as of May 31, 2021 and 2020 were immaterial.

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NOTE 7 — SHORT-TERM BORROWINGS AND CREDIT LINES

Notes payable as of May 31, 2021 and 2020, are summarized below:

	MAY 31,			
	2021		2020	
(Dollars in millions)	BORROWINGS	INTEREST RATE	BORROWINGS	INTEREST RATE
Notes payable:				
Commercial paper[1]	$ —	0.00 %	$ 248	1.65 %
U.S. operations	—	0.00 %	—	0.00 %[2]
Non-U.S. operations	2	17.80 %[2]	—	0.00 %
TOTAL NOTES PAYABLE	**$ 2**		**$ 248**	

(1) Commercial paper borrowings and repayments with original maturities greater than three months are included in Proceeds from borrowings, net of debt issuance costs and Repayment of borrowings, respectively, on the Consolidated Statements of Cash Flows.

(2) Weighted average interest rate includes non-interest bearing overdrafts.

The carrying amounts reflected in the Consolidated Balance Sheets for Notes payable approximate fair value.

On August 16, 2019, the Company entered into a committed credit facility agreement with a syndicate of banks, which provides up to $2 billion of borrowings, with the option to increase borrowings up to $3 billion in total upon lender approval. The facility matures on August 16, 2024, with a one-year extension option prior to any anniversary of the closing date, provided that in no event shall the facility extend beyond August 16, 2026. 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 London Interbank Offered Rate (LIBOR) plus 0.46%. The facility fee is 0.04% of the total commitment. This facility replaces the prior $2 billion credit facility agreement entered into on August 28, 2015, which would have matured August 28, 2020.

On March 15, 2021, the Company entered into a committed credit facility agreement with a syndicate of banks, which provides up to $1 billion of borrowings, with the option to increase borrowings up to $1.5 billion in total upon lender approval. The facility matures on March 14, 2022, with a 364-day extension option up to 30 days prior to the existing termination date, provided that in no event shall the facility extend beyond March 13, 2023. This facility replaces the prior $2 billion credit facility agreement entered into on April 6, 2020, which would have matured on April 5, 2021. 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 0.50%. The facility fee is 0.03% of the total undrawn commitment. Additionally, the Company decreased its $4 billion commercial paper program to $3 billion in connection with the new credit facility agreement.

As of and for the periods ended May 31, 2021 and 2020, no amounts were outstanding under any of the Company's committed credit facilities.

NOTE 8 — LONG-TERM DEBT

Long-term debt, net of unamortized premiums, discounts and debt issuance costs, comprises the following:

Scheduled Maturity (Dollars and Yen in millions)		ORIGINAL PRINCIPAL	INTEREST RATE	INTEREST PAYMENTS	BOOK VALUE OUTSTANDING AS OF MAY 31, 2021	BOOK VALUE OUTSTANDING AS OF MAY 31, 2020
Corporate Term Debt:[1][2]						
May 1, 2023	$	500	2.25 %	Semi-Annually	$ 499	$ 499
March 27, 2025		1,000	2.40 %	Semi-Annually	995	994
November 1, 2026		1,000	2.38 %	Semi-Annually	996	995
March 27, 2027		1,000	2.75 %	Semi-Annually	995	994
March 27, 2030		1,500	2.85 %	Semi-Annually	1,490	1,489
March 27, 2040		1,000	3.25 %	Semi-Annually	986	985
May 1, 2043		500	3.63 %	Semi-Annually	496	495
November 1, 2045		1,000	3.88 %	Semi-Annually	984	984
November 1, 2046		500	3.38 %	Semi-Annually	491	491
March 27, 2050		1,500	3.38 %	Semi-Annually	1,481	1,480
Japanese Yen Notes:[3]						
August 20, 2001 through November 20, 2020	¥	9,000	2.60 %	Quarterly	$ —	$ 2
August 20, 2001 through November 20, 2020		4,000	2.00 %	Quarterly	—	1
Total					9,413	9,409
Less current maturities					—	3
TOTAL LONG-TERM DEBT					**$ 9,413**	**$ 9,406**

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

(2) *The bonds are redeemable at the Company's option 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. However, 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 on or after the Par Call Date, as defined in the respective notes.*

(3) *NIKE Logistics YK assumed a total of ¥13.0 billion in loans as part of its agreement to purchase a distribution center in Japan, which serves as collateral for the loans. These loans matured 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 years ending May 31, 2022 through 2026, are $0 million, $500 million, $0 million, $1,000 million and $0 million, respectively, at face value.

The Company's Long-term debt is recorded at adjusted cost, net of unamortized premiums, discounts and debt issuance costs. 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 $10,275 million and $10,645 million as of May 31, 2021 and 2020, respectively.

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NOTE 9 — INCOME TAXES

Income before income taxes is as follows:

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Income before income taxes:			
United States	$ 5,723	$ 2,954	$ 593
Foreign	938	(67)	4,208
TOTAL INCOME BEFORE INCOME TAXES	**$ 6,661**	**$ 2,887**	**$ 4,801**

The provision for income taxes is as follows:

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Current:			
United States			
Federal	$ 328	$ (109)	$ 74
State	134	81	56
Foreign	857	756	608
Total Current	1,319	728	738
Deferred:			
United States			
Federal	(371)	(231)	(33)
State	(34)	(47)	(9)
Foreign	20	(102)	76
Total Deferred	(385)	(380)	34
TOTAL INCOME TAX EXPENSE	**$ 934**	**$ 348**	**$ 772**

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate is as follows:

	YEAR ENDED MAY 31,		
	2021	**2020**	**2019**
Federal income tax rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	1.3 %	0.8 %	1.0 %
Foreign earnings	0.2 %	5.9 %	-1.1 %
Foreign-derived intangible income benefit	-3.7 %	-8.1 %	— %
Excess tax benefits from share-based compensation	-4.5 %	-7.2 %	-3.6 %
Income tax audits and contingency reserves	1.5 %	-1.4 %	1.3 %
U.S. research and development tax credit	-0.9 %	-1.8 %	-1.0 %
Other, net	-0.9 %	2.9 %	-1.5 %
EFFECTIVE INCOME TAX RATE	**14.0 %**	**12.1 %**	**16.1 %**

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the "Tax Act"), which significantly changed U.S. tax law and included a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries. The Company recognizes taxes due under the GILTI provision as a current period expense.

The effective tax rate for the fiscal year ended May 31, 2021, was higher than the effective tax rate for the fiscal year ended May 31, 2020, due to a change in the proportion of earnings taxed in the U.S., related to the recovery from the impact of the COVID-19 pandemic and less favorable impacts from discrete items such as stock-based compensation. Income tax audit and contingency reserves for the fiscal year ended May 31, 2021, reflects recognition of a reserve of 1.2% related to *Altera Corp. v. Commissioner*, where the taxpayer was denied a hearing before the U.S. Supreme Court on June 22, 2020, thereby ratifying the Ninth Circuit Court's decision and requiring the inclusion of stock-based compensation in intercompany cost-sharing arrangements, and other matters of 0.3%.

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The effective tax rate for the fiscal year ended May 31, 2020, was lower than the effective tax rate for the fiscal year ended May 31, 2019, due to increased benefits from discrete items such as stock-based compensation. The foreign earnings rate impact shown above for the fiscal year ended May 31, 2020, includes withholding taxes of 6.5% and held for sale accounting items of 2.9%, offset by a benefit for statutory rate differences and other items of 3.5%. The foreign derived intangible income benefit reflects U.S. tax benefits introduced by the Tax Act for companies serving foreign markets. This benefit became available to the Company as a result of a restructuring of its intellectual property interests. Income tax audit and contingency reserves reflect benefits associated with the modification of the treatment of certain research and development expenditures of 2.9% offset by an increase related to the resolution of an audit by the U.S. Internal Revenue Service ("IRS") and other matters of 1.5%. Included in other is the deferral of income tax effects related to intra-entity transfers of inventory of 2.3% and other items of 0.6%.

Deferred tax assets and liabilities comprise the following as of:

	MAY 31,	
(Dollars in millions)	**2021**	**2020**
Deferred tax assets:		
Inventories[1]	$ 78	$ 84
Sales return reserves[1]	100	115
Deferred compensation[1]	350	295
Stock-based compensation	175	168
Reserves and accrued liabilities[1]	96	120
Operating lease liabilities	499	491
Intangibles	187	—
Capitalized research and development expenditures	349	189
Net operating loss carry-forwards[1]	15	21
Other[1]	178	127
Total deferred tax assets	2,027	1,610
Valuation allowance[1]	(12)	(26)
Total deferred tax assets after valuation allowance	2,015	1,584
Deferred tax liabilities:		
Foreign withholding tax on undistributed earnings of foreign subsidiaries	(182)	(165)
Property, plant and equipment[1]	(255)	(232)
Right-of-use assets	(431)	(423)
Other[1]	(14)	(32)
Total deferred tax liabilities	(882)	(852)
NET DEFERRED TAX ASSET	**$ 1,133**	**$ 732**

(1) The above amounts exclude deferred taxes held-for-sale as of May 31, 2021 and 2020. See Note 20 — Acquisitions and Divestitures for additional information.

The following is a reconciliation of the changes in the gross balance of unrecognized tax benefits as of:

(Dollars in millions)	MAY 31, 2021	2020	2019
Unrecognized tax benefits, beginning of the period	$ 771	$ 808	$ 698
Gross increases related to prior period tax positions	77	181	85
Gross decreases related to prior period tax positions	(22)	(171)	(32)
Gross increases related to current period tax positions	59	50	81
Settlements	(5)	(58)	—
Lapse of statute of limitations	(6)	(28)	(35)
Changes due to currency translation	22	(11)	11
UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD	**$ 896**	**$ 771**	**$ 808**

As of May 31, 2021, total gross unrecognized tax benefits, excluding related interest and penalties, were $896 million, $609 million of which would affect the Company's effective tax rate if recognized in future periods. The majority of the total gross unrecognized tax benefits are long-term in nature and included within Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

The Company recognizes interest and penalties related to income tax matters in income tax expense. The liability for payment of interest and penalties increased by $45 million during the year ended May 31, 2021, decreased by $16 million during the fiscal year ended May 31, 2020, and increased by $17 million during the fiscal year ended May 31, 2019. As of May 31, 2021 and 2020, accrued interest and penalties related to uncertain tax positions were $203 million and $158 million, respectively (excluding federal benefit).

As of May 31, 2021 and 2020, long-term income taxes payable were $640 million and $757 million, respectively, and were included within Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. The Company is currently under audit by the IRS for fiscal years 2017 through 2019. The Company has closed all U.S. federal income tax matters through fiscal 2016, with the exception of certain transfer pricing adjustments. Tax years after 2010 remain open in certain major foreign jurisdictions. 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 $40 million within the next 12 months. In January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. The Company believes the investigation is without merit. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to current and prior periods, and the Company's Netherlands income taxes in the future could increase.

The Company historically provided for U.S. income taxes on the undistributed earnings of foreign subsidiaries unless they were considered indefinitely reinvested outside the United States. As a result of the enactment of the Tax Act, in fiscal 2018 the Company reevaluated its historic indefinite reinvestment assertion and determined that any historical or future undistributed earnings of foreign subsidiaries are no longer considered to be indefinitely reinvested. Effective January 1, 2020, however, the tax law in the Netherlands, one of the Company's major jurisdictions, changed. As a result of the change in law, the Company's undistributed earnings in the Netherlands are subject to withholding tax upon distribution. It is the Company's intention to indefinitely reinvest the historical earnings of certain foreign subsidiaries outside North America prior to May 31, 2020, to ensure there is sufficient working capital to expand operations outside the United States. Accordingly, the Company has not recorded a deferred tax liability related to foreign withholding taxes on approximately $10.3 billion of undistributed earnings of these foreign subsidiaries as of May 31, 2021. Withholding taxes of approximately $1.5 billion would be payable upon the remittance of these undistributed earnings as of May 31, 2021.

A portion of the Company's foreign operations benefit from a tax holiday, which is set to expire in 2031. This tax holiday may be extended when certain conditions are met or may be terminated early if certain conditions are not met. The tax benefit attributable to this tax holiday was $238 million, $238 million and $167 million for the fiscal years ended May 31, 2021, 2020 and 2019, respectively. The benefit of the tax holiday on diluted earnings per common share was $0.15, $0.15 and $0.10 for the fiscal years ended May 31, 2021, 2020 and 2019, respectively.

Deferred tax assets as of May 31, 2021 and 2020, were reduced by a valuation allowance. For the fiscal year ended May 31, 2021, a valuation allowance was provided for U.S. capital loss carryforwards and on tax benefits generated by certain entities with operating losses. For the fiscal year ended May 31, 2020, a valuation allowance was provided for U.S. foreign tax credit carryforwards and on tax benefits generated by certain entities with operating losses. There was a $14 million net decrease in the valuation allowance for the fiscal year ended May 31, 2021, compared to a $62 million net decrease for the fiscal year ended May 31, 2020, and $7 million net decrease for the year ended May 31, 2019.

The Company has available domestic and foreign loss carry-forwards of $65 million as of May 31, 2021. If not utilized, such losses will expire as follows:

	YEAR ENDING MAY 31,						
(Dollars in millions)	**2022**	**2023**	**2024**	**2025**	**2026-2041**	**INDEFINITE**	**TOTAL**
Net operating losses	$ —	$ —	$ —	$ —	$ 42	$ 23	$ 65

NOTE 10 — REDEEMABLE PREFERRED STOCK

Sojitz America is the sole owner of the Company's authorized redeemable preferred stock, $1 par value, which is redeemable at the option of Sojitz America or the Company at par value aggregating $0.3 million. A cumulative dividend of $0.10 per share is payable annually on May 31, and no dividends may be declared or paid on the common stock of the Company unless dividends on the redeemable preferred stock have been declared and paid in full. There have been no changes in the redeemable preferred stock in the fiscal years ended May 31, 2021, 2020 and 2019. As the holder of the redeemable preferred stock, Sojitz America does not have general voting rights but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries; on merger, consolidation, liquidation or dissolution of the Company; or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States. The redeemable preferred stock has been fully issued to Sojitz America and is not blank check preferred stock. The Company's articles of incorporation do not permit the issuance of additional preferred stock.

NOTE 11 — COMMON STOCK AND STOCK-BASED COMPENSATION

COMMON STOCK

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 holders of Class A and Class B Common Stock. From time to time, the Company's Board of Directors authorizes share repurchase programs for the repurchase of Class B Common Stock. The value of repurchased shares is deducted from Total shareholders' equity through allocation to Capital in excess of stated value and Retained earnings.

STOCK-BASED COMPENSATION

The NIKE, Inc. Stock Incentive Plan (the “Stock Incentive Plan”) provides for the issuance of up to 798 million previously unissued shares of Class B Common Stock in connection with equity 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. The Company generally grants stock options and restricted stock on an annual basis. Substantially all awards under the Stock Incentive Plan vest ratably over 4 years of continued employment, with stock options expiring 10 years from the date of grant.

The following table summarizes the Company's total stock-based compensation expense recognized in Cost of sales or Operating overhead expense, as applicable:

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Stock options[(1)]	$ 323	$ 237	$ 207
ESPPs	63	53	40
Restricted stock[(1)]	225	139	78
TOTAL STOCK-BASED COMPENSATION EXPENSE	**$ 611**	**$ 429**	**$ 325**

(1) Expense for stock options includes the expense associated with stock appreciation rights. Accelerated stock option expense is primarily recorded for employees meeting certain retirement eligibility requirements and was $67 million, $53 million and $41 million for the fiscal years ended May 31, 2021, 2020 and 2019, respectively. During fiscal 2021, an immaterial amount of accelerated stock option and restricted stock expense was also recorded for certain employees impacted by the Company's organizational realignment. For more information, see Note 21 — Restructuring.

The income tax benefit related to stock-based compensation expense was $297 million, $207 million and $175 million for the fiscal years ended May 31, 2021, 2020 and 2019, respectively, and reported within Income tax expense.

STOCK OPTIONS

The weighted average fair value per share of the options granted during the years ended May 31, 2021, 2020 and 2019, computed as of the grant date using the Black-Scholes pricing model, was $26.75, $18.71 and $22.78, respectively. The weighted average assumptions used to estimate these fair values were as follows:

	YEAR ENDED MAY 31,		
	2021	2020	2019
Dividend yield	0.9 %	1.0 %	1.0 %
Expected volatility	27.3 %	23.0 %	26.6 %
Weighted average expected life (in years)	6.0	6.0	6.0
Risk-free interest rate	0.4 %	1.5 %	2.8 %

Expected volatilities are based on the historical volatility of the Company's common stock, the implied volatility in market traded options on the Company's common stock with a term greater than one year, as well as 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.

The following summarizes the stock option transactions under the plan discussed above:

	SHARES[(1)]	WEIGHTED AVERAGE OPTION PRICE
	(In millions)	
Options outstanding as of May 31, 2020	88.1	$ 60.98
Exercised	(20.7)	46.31
Forfeited	(3.8)	95.87
Granted	14.7	112.65
Options outstanding as of May 31, 2021	78.3	$ 72.88

(1) Includes stock appreciation rights transactions.

Options exercisable as of May 31, 2021, were 44.2 million and had a weighted average option price of $57.43 per share. The aggregate intrinsic value for options outstanding and exercisable as of May 31, 2021, was $4,976 million and $3,494 million, respectively. The total intrinsic value of the options exercised during the years ended May 31, 2021, 2020 and 2019 was $1,571 million, $1,161 million and $938 million, respectively. The intrinsic value is the amount by which the market value of the underlying stock exceeds the exercise price of the options. The weighted average contractual life remaining for options outstanding and options exercisable as of May 31, 2021, was 5.9 years and 4.2 years, respectively. As of May 31, 2021, the Company had $415 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in Cost of sales or Operating overhead expense, as applicable, over a weighted average remaining period of 2.5 years.

EMPLOYEE STOCK PURCHASE PLANS

In addition to the Stock Incentive Plan, the Company gives employees the right to purchase shares at a discount from the market price under employee stock purchase plans (ESPPs). Subject to the annual statutory limit, 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. Employees purchased 2.5 million, 2.7 million and 2.5 million shares during each of the fiscal years ended May 31, 2021, 2020 and 2019, respectively.

RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Recipients of restricted stock are entitled to cash dividends and to vote their respective shares throughout the period of restriction. Recipients of restricted stock units are entitled to dividend equivalent cash payments upon vesting. The number of restricted stock and restricted stock units vested includes shares of common stock withheld by the Company on behalf of employees to satisfy the minimum statutory tax withholding requirements.

The following summarizes the restricted stock and restricted stock unit activity under the plan discussed above:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
	(In millions)	
Nonvested as of May 31, 2020	6.8	$ 79.84
Vested	(2.7)	76.95
Forfeited	(1.1)	81.70
Granted	3.6	113.84
Nonvested as of May 31, 2021	6.6	$ 99.70

The weighted average fair value per share of restricted stock and restricted stock units granted for the years ended May 31, 2021, 2020 and 2019, computed as of the grant date, was $113.84, $88.26 and $80.95, respectively. During the years ended May 31, 2021, 2020 and 2019, the aggregate fair value of restricted stock and restricted stock units vested was $310 million, $98 million and $44 million, respectively, computed as of the date of vesting. As of May 31, 2021, the Company had $448 million of unrecognized compensation costs from restricted stock and restricted stock units, net of estimated forfeitures, to be recognized in Cost of sales or Operating overhead expense, as applicable, over a weighted average remaining period of 2.5 years.

NOTE 12 — 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 restricted stock and options, including shares under ESPPs, to purchase an additional 11.3 million, 30.6 million and 17.5 million shares of common stock outstanding for the fiscal years ended May 31, 2021, 2020 and 2019, respectively, because the awards were anti-dilutive.

	YEAR ENDED MAY 31,		
(In millions, except per share data)	**2021**	**2020**	**2019**
Net income available to common stockholders	$ 5,727	$ 2,539	$ 4,029
Determination of shares:			
Weighted average common shares outstanding	1,573.0	1,558.8	1,579.7
Assumed conversion of dilutive stock options and awards	36.4	32.8	38.7
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**1,609.4**	**1,591.6**	**1,618.4**
Earnings per common share:			
Basic	$ 3.64	$ 1.63	$ 2.55
Diluted	$ 3.56	$ 1.60	$ 2.49

NOTE 13 — BENEFIT PLANS

The Company has a qualified 401(k) Savings and Profit Sharing Plan, in which all U.S. employees are able to participate. The Company matches a portion of employee contributions to the savings plan. Company contributions to the savings plan were $110 million, $107 million and $90 million and included in Cost of sales or Operating overhead expense, as applicable, for the years ended May 31, 2021, 2020 and 2019, respectively. The terms of the plan also allow for annual discretionary profit sharing contributions, as recommended by senior management and approved by the Board of Directors, to the accounts of eligible U.S. employees who work at least 1,000 hours in a year. There were no profit sharing contributions made to the plan for the fiscal years ended May 31, 2021 and 2020. Profit sharing contributions of $37 million were made to the plan and included in Cost of sales or Operating overhead expense, as applicable, for the year ended May 31, 2019.

The Company also has a Long-Term Incentive Plan (LTIP) adopted by the Board of Directors and approved by shareholders in September 1997, which has been amended from time to time. The Company recognized $78 million, $66 million and $83 million of Operating overhead expense related to cash awards under the LTIP during the years ended May 31, 2021, 2020 and 2019, respectively.

The Company allows certain highly compensated employees and non-employee directors of the Company to defer compensation under a nonqualified deferred compensation plan. Deferred compensation plan liabilities were $944 million and $725 million as of

May 31, 2021 and 2020, respectively, and primarily classified in Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

The Company has pension plans in various countries worldwide. The pension plans are only available to local employees and are generally government mandated. The liability related to the unfunded pension liabilities of the plans was $64 million and $79 million as of May 31, 2021 and 2020, respectively, and primarily classified as non-current in Deferred income taxes and other liabilities on the Consolidated Balance Sheets.

NOTE 14 — 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 U.S. GAAP. 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 and assessing, both at inception and on an ongoing basis, the effectiveness of the hedging relationships.

The majority of derivatives outstanding as of May 31, 2021, are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Chinese Yuan/U.S. Dollar and Japanese Yen/U.S. Dollar currency pairs. All derivatives are recognized on the Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date.

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The following tables present the fair values of derivative instruments included within the Consolidated Balance Sheets:

	DERIVATIVE
(Dollars in millions)	**BALANCE SHEET LOCATIO**
Derivatives formally designated as hedging instruments:	
Foreign exchange forwards and options	Prepaid expenses and other current ass
Foreign exchange forwards and options	Deferred income taxes and other asset
Total derivatives formally designated as hedging instruments	
Derivatives not designated as hedging instruments:	
Foreign exchange forwards and options	Prepaid expenses and other current ass
Embedded derivatives	Prepaid expenses and other current ass
Foreign exchange forwards and options	Deferred income taxes and other ass
Total derivatives not designated as hedging instruments	
TOTAL DERIVATIVE ASSETS	

	DERIVATIVE LIA
(Dollars in millions)	**BALANCE SHEET LOCATION**
Derivatives formally designated as hedging instruments:	
Foreign exchange forwards and options	Accrued liabilitie
Foreign exchange forwards and options	Deferred income taxes and other liabilitie
Total derivatives formally designated as hedging instruments	
Derivatives not designated as hedging instruments:	
Foreign exchange forwards and options	Accrued liabilitie
Embedded derivatives	Accrued liabilitie
Total derivatives not designated as hedging instruments	
TOTAL DERIVATIVE LIABILITIES	

The following table presents the amounts in the Consolidated Statements of Income in which the effects of cash flow hedges are recorded and the effects of cash flow hedge activity on these line items for the fiscal years ended May 31, 2021, 2020 and 2019:

	YEAR ENDED MAY 31,					
	2021		2020		2019	
(Dollars in millions)	TOTAL	AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY	TOTAL	AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY	TOTAL	AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY
Revenues	$ 44,538	$ 45	$ 37,403	$ (17)	$ 39,117	$ (5)
Cost of sales	24,576	51	21,162	364	21,643	53
Demand creation expense	3,114	3	3,592	(2)	3,753	—
Other (income) expense, net	14	(47)	139	181	(78)	35
Interest expense (income), net	262	(7)	89	(7)	49	(7)

The following tables present the amounts affecting the Consolidated Statements of Income for the years ended May 31, 2021, 2020 and 2019:

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS) ON DERIVATIVES[1] YEAR ENDED MAY 31, 2021	2020	2019	LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME	AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME[1] YEAR ENDED MAY 31, 2021	2020	2019
Derivatives designated as cash flow hedges:							
Foreign exchange forwards and options	$ (61)	$ 28	$ 14	Revenues	$ 45	$ (17)	$ (5)
Foreign exchange forwards and options	(563)	283	405	Cost of sales	51	364	53
Foreign exchange forwards and options	5	1	2	Demand creation expense	3	(2)	—
Foreign exchange forwards and options	(163)	90	156	Other (income) expense, net	(47)	181	35
Interest rate swaps[2]	—	—	—	Interest expense (income), net	(7)	(7)	(7)
Total designated cash flow hedges	**$ (782)**	**$ 402**	**$ 577**		**$ 45**	**$ 519**	**$ 76**

(1) For the fiscal years ended May 31, 2021, 2020 and 2019, the amounts recorded in Other (income) expense, net as a result of the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.

(2) Gains and losses associated with terminated interest rate swaps, which were previously designated as cash flow hedges and recorded in Accumulated other comprehensive income (loss), will be released through Interest expense (income), net over the term of the issued debt.

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES YEAR ENDED MAY 31, 2021	2020	2019	LOCATION OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES
Derivatives not designated as hedging instruments:				
Foreign exchange forwards and options	$ (150)	$ 76	$ 166	Other (income) expense, net
Embedded derivatives	(17)	(1)	7	Other (income) expense, net

CASH FLOW HEDGES

All changes in fair value of derivatives designated as cash flow hedge instruments are recorded in Accumulated other comprehensive income (loss) until Net income is affected by the variability of cash flows of the hedged transaction. Effective hedge results are classified in the Consolidated Statements of Income in the same manner as the underlying exposure. When it is no longer probable the forecasted hedged transaction will occur in the initially identified time period, hedge accounting is discontinued and the Company accounts for the associated derivative as an undesignated instrument as discussed below. Additionally, the gains and losses associated with derivatives no longer designated as cash flow hedge instruments in Accumulated other comprehensive income (loss) are recognized immediately in Other (income) expense, net, if it is probable the forecasted hedged transaction will not occur by the end of the initially identified time period or within an additional two-month period thereafter. In rare circumstances, the additional period of time may exceed two months due to extenuating circumstances related to the nature of the forecasted transaction that are outside the control or influence of the Company.

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 the Company may elect to hedge in this manner include product costs, non-functional currency denominated revenues, intercompany revenues, demand creation expenses, investments in U.S. Dollar denominated available-for-sale debt securities and certain other intercompany transactions.

Product cost foreign currency 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 products 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. NTC sales to a NIKE entity with a different functional currency result in 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 $17.4 billion as of May 31, 2021.

As of May 31, 2021, approximately $369 million of deferred net losses (net of tax) on both outstanding and matured derivatives in Accumulated other comprehensive income (loss) are 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 currently outstanding mature. As of May 31, 2021, the maximum term over which the Company hedges exposures to the variability of cash flows for its forecasted transactions was 24 months.

FAIR VALUE HEDGES

The Company has, in the past, been 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. The Company had no interest rate swaps designated as fair value hedges as of May 31, 2021.

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 are reported in Accumulated other comprehensive income (loss) along with the foreign currency translation adjustments on those investments. The Company had no outstanding net investment hedges as of May 31, 2021.

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 Consolidated Balance Sheets and/or embedded derivative contracts. These undesignated instruments are recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in Other (income) expense, net, together with the remeasurement gain or loss from the hedged balance sheet position and/or embedded derivative contract. The total notional amount of outstanding undesignated derivative instruments was $4.8 billion as of May 31, 2021.

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. In addition, embedded derivative contracts are created when the Company enters 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. Embedded derivative contracts are treated as foreign currency forward contracts that are bifurcated from the related contract and recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in Other (income) expense, net, through the date the foreign currency fluctuations cease to exist.

As of May 31, 2021, the total notional amount of embedded derivatives outstanding was approximately $415 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 trigger collateral requirements. As of May 31, 2021, the Company was in compliance with all credit risk-related contingent features, and derivative instruments with such features were in a net liability position of approximately $364 million. Accordingly, the Company posted $39 million of cash collateral as a result of these contingent features. Further, as of May 31, 2021, the Company had received no cash collateral from various counterparties to its derivative contracts. The Company considers the impact of the risk of counterparty default to be immaterial.

For additional information related to the Company's derivative financial instruments and collateral, refer to Note 6 — Fair Value Measurements.

NOTE 15 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in Accumulated other comprehensive income (loss), net of tax, were as follows:

(Dollars in millions)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT[1]	CASH FLOW HEDGES	NET INVESTMENT HEDGES[1]	OTHER	TOTAL
Balance at May 31, 2020	**$ (494)**	**$ 390**	**$ 115**	**$ (67)**	**$ (56)**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications[2]	499	(788)	—	(8)	(297)
Reclassifications to net income of previously deferred (gains) losses[3]	(3)	(37)	—	13	(27)
Total other comprehensive income (loss)	496	(825)	—	5	(324)
Balance at May 31, 2021	**$ 2**	**$ (435)**	**$ 115**	**$ (62)**	**$ (380)**

(1) The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $(6) million, $0 million, $(1) million and $(7) million, respectively.

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

(Dollars in millions)		FOREIGN CURRENCY TRANSLATION ADJUSTMENT(1)	CASH FLOW HEDGES	NET INVESTMENT HEDGES(1)	OTHER	TOTAL
Balance at May 31, 2019	**$**	**(346) $**	**520 $**	**115 $**	**(58) $**	**231**
Other comprehensive income (loss):						
Other comprehensive gains (losses) before reclassifications(2)		(149)	387	—	(8)	230
Reclassifications to net income of previously deferred (gains) losses(3)		1	(517)	—	(1)	(517)
Total other comprehensive income (loss)		(148)	(130)	—	(9)	(287)
Balance at May 31, 2020	**$**	**(494) $**	**390 $**	**115 $**	**(67) $**	**(56)**

(1) The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $(15) million, $0 million, $1 million and $(14) million, respectively.

(3) Net of tax (benefit) expense of $0 million, $2 million, $0 million, $0 million and $2 million, respectively.

The following table summarizes the reclassifications from Accumulated other comprehensive income (loss) to the Consolidated Statements of Income:

	AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME		
	YEAR ENDED MAY 31,		
(Dollars in millions)	**2021**	**2020**	**LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME**
Gains (losses) on foreign currency translation adjustment	$ 3	$ (1)	Other (income) expense, net
Total before tax	3	(1)	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	**3**	**(1)**	
Gains (losses) on cash flow hedges:			
Foreign exchange forwards and options	$ 45	(17)	Revenues
Foreign exchange forwards and options	51	364	Cost of sales
Foreign exchange forwards and options	3	(2)	Demand creation expense
Foreign exchange forwards and options	(47)	181	Other (income) expense, net
Interest rate swaps	(7)	(7)	Interest expense (income), net
Total before tax	45	519	
Tax (expense) benefit	(8)	(2)	
Gain (loss) net of tax	**37**	**517**	
Gains (losses) on other	(13)	1	Other (income) expense, net
Total before tax	(13)	1	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	**(13)**	**1**	
Total net gain (loss) reclassified for the period	**$ 27**	**$ 517**	

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NOTE 16 — REVENUES

DISAGGREGATION OF REVENUES

The following tables present the Company's Revenues disaggregated by reportable operating segment, major product line and distribution channel:

(Dollars in millions)	YEAR ENDED MAY 31, 2021								
	NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA	GREATER CHINA	ASIA PACIFIC & LATIN AMERICA(1)	GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE	CORPORATE	TOTAL NIKE, INC.
Revenues by:									
Footwear	$ 11,644	$ 6,970	$ 5,748	$ 3,659	$ —	$ 28,021	$ 1,986	$ —	$ 30,007
Apparel	5,028	3,996	2,347	1,494	—	12,865	104	—	12,969
Equipment	507	490	195	190	—	1,382	29	—	1,411
Other	—	—	—	—	25	25	86	40	151
TOTAL REVENUES	**$ 17,179**	**$ 11,456**	**$ 8,290**	**$ 5,343**	**$ 25**	**$ 42,293**	**$ 2,205**	**$ 40**	**$ 44,538**
Revenues by:									
Sales to Wholesale Customers	$ 10,186	$ 7,812	$ 4,513	$ 3,387	$ —	$ 25,898	$ 1,353	$ —	$ 27,251
Sales through Direct to Consumer	6,993	3,644	3,777	1,956	—	16,370	766	—	17,136
Other	—	—	—	—	25	25	86	40	151
TOTAL REVENUES	**$ 17,179**	**$ 11,456**	**$ 8,290**	**$ 5,343**	**$ 25**	**$ 42,293**	**$ 2,205**	**$ 40**	**$ 44,538**

(1) Refer to Note 20 — Acquisitions and Divestitures for additional information on the transition of the Company's NIKE Brand business in Brazil to a third-party distributor.

(Dollars in millions)	YEAR ENDED MAY 31, 2020								
	NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA	GREATER CHINA	ASIA PACIFIC & LATIN AMERICA	GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE	CORPORATE	TOTAL NIKE, INC.
Revenues by:									
Footwear	$ 9,329	$ 5,892	$ 4,635	$ 3,449	$ —	$ 23,305	$ 1,642	$ —	$ 24,947
Apparel	4,639	3,053	1,896	1,365	—	10,953	89	—	11,042
Equipment	516	402	148	214	—	1,280	25	—	1,305
Other	—	—	—	—	30	30	90	(11)	109
TOTAL REVENUES	**$ 14,484**	**$ 9,347**	**$ 6,679**	**$ 5,028**	**$ 30**	**$ 35,568**	**$ 1,846**	**$ (11)**	**$ 37,403**
Revenues by:									
Sales to Wholesale Customers	$ 9,371	$ 6,574	$ 3,803	$ 3,408	$ —	$ 23,156	$ 1,154	$ —	$ 24,310
Sales through Direct to Consumer	5,113	2,773	2,876	1,620	—	12,382	602	—	12,984
Other	—	—	—	—	30	30	90	(11)	109
TOTAL REVENUES	**$ 14,484**	**$ 9,347**	**$ 6,679**	**$ 5,028**	**$ 30**	**$ 35,568**	**$ 1,846**	**$ (11)**	**$ 37,403**

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(Dollars in millions)	NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA	GREATER CHINA	ASIA PACIFIC & LATIN AMERICA	GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE	CORPORATE	TOTAL NIKE, INC.
	YEAR ENDED MAY 31, 2019								
Revenues by:									
Footwear	$ 10,045	$ 6,293	$ 4,262	$ 3,622	$ —	$ 24,222	$ 1,658	$ —	$ 25,880
Apparel	5,260	3,087	1,808	1,395	—	11,550	118	—	11,668
Equipment	597	432	138	237	—	1,404	24	—	1,428
Other	—	—	—	—	42	42	106	(7)	141
TOTAL REVENUES	**$ 15,902**	**$ 9,812**	**$ 6,208**	**$ 5,254**	**$ 42**	**$ 37,218**	**$ 1,906**	**$ (7)**	**$ 39,117**
Revenues by:									
Sales to Wholesale Customers	$ 10,875	$ 7,076	$ 3,726	$ 3,746	$ —	$ 25,423	$ 1,247	$ —	$ 26,670
Sales through Direct to Consumer	5,027	2,736	2,482	1,508	—	11,753	553	—	12,306
Other	—	—	—	—	42	42	106	(7)	141
TOTAL REVENUES	**$ 15,902**	**$ 9,812**	**$ 6,208**	**$ 5,254**	**$ 42**	**$ 37,218**	**$ 1,906**	**$ (7)**	**$ 39,117**

For the fiscal years ended May 31, 2021, 2020 and 2019, Global Brand Divisions revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment. Converse Other revenues were primarily attributable to licensing businesses. Corporate revenues primarily consisted 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 the Company's central foreign exchange risk management program.

As of May 31, 2021 and 2020, the Company did not have any contract assets and had an immaterial amount of contract liabilities recorded in Accrued liabilities on the Consolidated Balance Sheets.

SALES-RELATED RESERVES

As of May 31, 2021 and 2020, the Company's sales-related reserve balance, which includes returns, post-invoice sales discounts and miscellaneous claims, was $1,077 million and $1,178 million, respectively, recorded in Accrued liabilities on the Consolidated Balance Sheets. The estimated cost of inventory for expected product returns was $269 million and $313 million as of May 31, 2021 and 2020, respectively, and was recorded in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

MAJOR CUSTOMERS

No customer accounted for 10% or more of the Company's consolidated net Revenues during the fiscal years ended May 31, 2021, 2020 and 2019.

NOTE 17 — OPERATING SEGMENTS AND RELATED INFORMATION

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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands, results for the Hurley brand, prior to its divestiture in fiscal 2020, were included in North America. Refer to Note 20 — Acquisitions and Divestitures for information regarding the fiscal 2020 divestiture of the Company's wholly-owned subsidiary, Hurley, and the planned transition of NIKE Brand businesses in certain countries within APLA to third-party distributors.

The Company's NIKE Direct operations are managed within each NIKE Brand geographic operating segment. Converse is also a reportable segment for the Company and operates in one industry: the design, marketing, licensing and selling of athletic lifestyle 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 revenues include NIKE Brand licensing and other miscellaneous revenues that are not part of a geographic operating segment. Global Brand Divisions costs represent demand creation and operating overhead expense that include product creation and design expenses centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology.

Corporate consists primarily 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. For the fiscal year ended May 31, 2020, Corporate included a non-recurring impairment charge, recognized as a result of the Company's decision to transition certain NIKE Brand businesses within APLA to a third-party distributor. This charge primarily reflected the anticipated release of associated non-cash cumulative foreign currency translation losses. For more information regarding this charge, refer to Note 20 — Acquisitions and Divestitures.

The primary financial measure used by the Company to evaluate performance of individual operating segments is earnings before interest and taxes (EBIT), which represents Net income before Interest expense (income), net and Income tax expense in the Consolidated Statements of Income.

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 to Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons, and one standard rate applies to the spring and summer selling seasons) 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 the 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.

(Dollars in millions)	YEAR ENDED MAY 31, 2021	2020	2019
REVENUES			
North America	$ 17,179	$ 14,484	$ 15,902
Europe, Middle East & Africa	11,456	9,347	9,812
Greater China	8,290	6,679	6,208
Asia Pacific & Latin America	5,343	5,028	5,254
Global Brand Divisions	25	30	42
Total NIKE Brand	42,293	35,568	37,218
Converse	2,205	1,846	1,906
Corporate	40	(11)	(7)
TOTAL NIKE, INC. REVENUES	**$ 44,538**	**$ 37,403**	**$ 39,117**
EARNINGS BEFORE INTEREST AND TAXES			
North America	$ 5,089	$ 2,899	$ 3,925
Europe, Middle East & Africa	2,435	1,541	1,995
Greater China	3,243	2,490	2,376
Asia Pacific & Latin America	1,530	1,184	1,323
Global Brand Divisions	(3,656)	(3,468)	(3,262)
Converse	543	297	303
Corporate	(2,261)	(1,967)	(1,810)
Interest expense (income), net	262	89	49
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 6,661**	**$ 2,887**	**$ 4,801**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT			
North America	$ 98	$ 110	$ 117
Europe, Middle East & Africa	153	139	233
Greater China	94	28	49
Asia Pacific & Latin America	54	41	47
Global Brand Divisions	278	438	278
Total NIKE Brand	677	756	724
Converse	7	12	18
Corporate	107	356	333
TOTAL ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	**$ 791**	**$ 1,124**	**$ 1,075**
DEPRECIATION			
North America	$ 130	$ 148	$ 149
Europe, Middle East & Africa	136	132	111
Greater China	46	44	50
Asia Pacific & Latin America	43	46	53
Global Brand Divisions	222	214	195
Total NIKE Brand	577	584	558
Converse	26	25	31
Corporate	141	112	116
TOTAL DEPRECIATION	**$ 744**	**$ 721**	**$ 705**

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(Dollars in millions)	AS OF MAY 31, 2021	2020
ACCOUNTS RECEIVABLE, NET		
North America	$ 1,777	$ 1,020
Europe, Middle East & Africa	1,349	712
Greater China	288	321
Asia Pacific & Latin America(1)	643	425
Global Brand Divisions	128	65
Total NIKE Brand	4,185	2,543
Converse	225	149
Corporate	53	57
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 4,463**	**$ 2,749**
INVENTORIES		
North America	$ 2,851	$ 3,077
Europe, Middle East & Africa	1,821	2,070
Greater China	1,247	882
Asia Pacific & Latin America(1)	667	770
Global Brand Divisions	153	137
Total NIKE Brand	6,739	6,936
Converse	290	341
Corporate	(175)	90
TOTAL INVENTORIES	**$ 6,854**	**$ 7,367**
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	$ 617	$ 645
Europe, Middle East & Africa	982	885
Greater China	288	214
Asia Pacific & Latin America(1)	304	296
Global Brand Divisions	780	830
Total NIKE Brand	2,971	2,870
Converse	63	80
Corporate	1,870	1,916
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,904**	**$ 4,866**

(1) Excludes assets held-for-sale as of May 31, 2021. See Note 20 — Acquisitions and Divestitures for additional information.

REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREA

After allocation of revenues for Global Brand Divisions, Converse and Corporate to geographical areas based on the location where the sales originated, revenues by geographical area are essentially the same as reported above for the NIKE Brand operating segments with the exception of the United States. Revenues derived in the United States were $17,363 million, $14,625 million and $16,091 million for the fiscal years ended May 31, 2021, 2020 and 2019, respectively.

The Company's largest concentrations of long-lived assets primarily consist of the Company's corporate headquarters, retail locations and distribution facilities in the United States and China, as well as distribution facilities in Belgium. Long-lived assets attributable to operations in these countries, which primarily consists of property, plant and equipment, net and operating lease ROU assets, net, were as follows:

	MAY 31,	
(Dollars in millions)	**2021**	**2020**
United States	$ 4,927	$ 5,114
Belgium	676	606
China	518	457

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NOTE 18 — COMMITMENTS AND CONTINGENCIES

As of May 31, 2021 and 2020, the Company had bank guarantees and letters of credit outstanding totaling $275 million and $239 million, respectively, issued primarily for real estate agreements, self-insurance programs and other general business obligations.

In connection with various contracts and agreements, the Company provides routine indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where the Company is acting as the guarantor. Currently, the Company has several such agreements in place. However, based on the Company's historical experience and the estimated probability of future loss, the Company has determined the fair value of such indemnification is not material to the Company's financial position or results of operations.

In the ordinary course of business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. While the Company cannot predict the outcome of its pending legal matters with certainty, the Company does not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on the Company's results of operations, financial position or cash flows.

NOTE 19 — LEASES

Lease expense is recognized in Cost of sales or Operating overhead expense within the Consolidated Statements of Income, based on the underlying nature of the leased asset. For the fiscal year ended May 31, 2021, lease expense primarily consisted of operating lease costs of $589 million, along with $347 million primarily related to variable lease costs, which includes an immaterial amount of short-term lease costs. For the fiscal year ended May 31, 2020, lease expense primarily consisted of operating lease costs of $569 million, along with $337 million primarily related to variable lease costs, which includes an immaterial amount of short-term lease costs. Prior to the adoption of Topic 842, and in accordance with ASC Topic 840 - *Leases*, rent expense, excluding executory costs, was $829 million for the fiscal year ended May 31, 2019. As of and for the fiscal years ended May 31, 2021 and 2020, finance leases were not a material component of the Company's lease portfolio.

The undiscounted cash flows for future maturities of the Company's operating lease liabilities and the reconciliation to the Operating lease liabilities recognized in the Company's Consolidated Balance Sheets are as follows:

(Dollars in millions)		AS OF MAY 31, 2021[1]
Fiscal 2022	$	534
Fiscal 2023		530
Fiscal 2024		490
Fiscal 2025		437
Fiscal 2026		357
Thereafter		1,397
Total undiscounted future cash flows related to lease payments	$	3,745
Less: Interest		347
Present value of lease liabilities	$	3,398

(1) Excludes $78 million as of May 31, 2021, of future operating lease payments for lease agreements signed but not yet commenced.

The following table includes supplemental information used to calculate the present value of Operating lease liabilities:

	AS OF MAY 31,	
	2021	2020
Weighted-average remaining lease term (in years)	8.3	8.7
Weighted-average discount rate	2.3 %	2.4 %

The following table includes supplemental cash and non-cash information related to operating leases:

	YEAR ENDED MAY 31,	
(Dollars in millions)	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 583	$ 532
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	$ 489	$ 705 [(1)]

(1) Excludes the amount initially capitalized in conjunction with the adoption of Topic 842.

NOTE 20 — ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

During fiscal 2021, 2020 and 2019, the Company made multiple acquisitions focused on gaining new capabilities to fuel its Consumer Direct Offense strategy, serving consumers personally at a global scale. The impact of acquisitions, individually and in aggregate, was not considered material to the Company's Consolidated Financial Statements.

DIVESTITURES

During fiscal 2020, as a result of the Company's decision to transition its wholesale and direct to consumer operating model in certain countries within its APLA operating segment, the Company signed definitive agreements to sell its NIKE Brand businesses in Brazil, Argentina, Chile and Uruguay to third-party distributors. Specifically, NIKE entered into agreements to sell its operations in Argentina, Chile and Uruguay to Grupo Axo and to sell substantially all of its operations in Brazil to Grupo SBF S.A., through its wholly-owned subsidiary. The Company has maintained a small operation in Brazil focused on certain sports marketing assets, local manufacturing and Converse.

As a result of this decision, beginning in fiscal 2020, the related assets and liabilities of these entities were classified as held-for-sale within Prepaid expenses and other current assets and Accrued liabilities, respectively, on the Consolidated Balance Sheets.

BRAZIL

During fiscal 2021, the transaction with Grupo SBF S.A. closed, and the Company recognized a loss of approximately $50 million within Other (income) expense, net classified within Corporate, on the Consolidated Statements of Income. Cash proceeds received were reflected within Other investing activities on the Consolidated Statements of Cash Flows.

As of May 31, 2020, held-for-sale assets and liabilities consisted of the following:

- Held-for-sale assets of $272 million, primarily consisting of $142 million of Inventories and $101 million of Accounts receivable, net; and
- Held-for-sale liabilities of $91 million, primarily consisting of $51 million of Accrued liabilities.

ARGENTINA, CHILE AND URUGUAY

During fiscal 2021, the Company and Grupo Axo mutually agreed to terminate the sale and purchase agreement for the transition of NIKE’s businesses in Argentina, Chile and Uruguay to a distributor partnership. However, as the Company remains committed to selling its legal entities in all three countries and granting distribution rights to third-party distributors, the assets and liabilities of the entities have remained classified as held-for-sale on the Consolidated Balance Sheets.

As of May 31, 2021, held-for-sale assets and liabilities consisted of the following:

- Held-for-sale assets of $175 million, primarily consisting of $76 million of Inventories and $59 million of Accounts receivable, net; and

- Held-for-sale liabilities of $72 million, primarily consisting of $25 million of Accounts payable and $22 million of Accrued liabilities.

As of May 31, 2020, held-for-sale assets and liabilities consisted of the following:

- Held-for-sale assets of $234 million, primarily consisting of $122 million of Inventories and $50 million of Prepaid expenses and other current assets; and

- Held-for-sale liabilities of $55 million, primarily consisting of $34 million of Accrued liabilities.

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The Company has recognized total expected net losses of $358 million as of May 31, 2021, related to the Argentina, Chile and Uruguay transaction within Other (income) expense, net, classified within Corporate, and a corresponding allowance within Accrued liabilities on the Consolidated Balance Sheets. The initial expected loss of $405 million recognized in fiscal 2020 and subsequently adjusted for changes in fair value is largely due to the anticipated release of the cumulative net foreign currency translation losses. These losses will be reclassified from Accumulated other comprehensive income (loss) to Net income upon sale of the legal entities. For more information see Note 6 — Fair Value Measurements.

OTHER DIVESTITURES

On October 29, 2019, the Company signed a definitive agreement to sell the assets and liabilities of its wholly-owned subsidiary brand, Hurley. The transaction closed on December 6, 2019, and the impacts of the divestiture were not considered material to the Company's Consolidated Financial Statements.

NOTE 21 — RESTRUCTURING

During the first quarter of fiscal 2021, the Company announced a new digitally empowered phase of its Consumer Direct Offense strategy: Consumer Direct Acceleration. As a result, management announced a series of leadership and operating model changes to streamline and speed up strategic execution for the Company. These changes resulted in a net reduction of the Company's global workforce, and during fiscal 2021, the Company incurred pre-tax charges of $294 million, which relate to employee termination costs and, to a lesser extent, stock-based compensation expense. This amount reflects the continued evaluation and variability of the Company's original estimate of employee termination costs and required changes in assumptions used to calculate stock-based compensation expense. The related cash expenditures primarily took place throughout fiscal 2021, and all related actions are substantially complete.

As of May 31, 2021, the Company recognized employee termination costs of $214 million and $35 million within Operating overhead expense and Cost of sales, respectively, on the Consolidated Statements of Income. These costs were classified within Corporate.

The activity was recognized within Accrued liabilities as follows:

(Dollars in millions)

Balance at May 31, 2020	$	—
Employee termination costs		249
Cash payments		(212)
Foreign currency translation and other		1
Balance at May 31, 2021	$	38

Additionally, the related stock-based compensation expense recorded within Operating overhead expense and Costs of sales was $41 million and $4 million, respectively, for the fiscal year ended May 31, 2021.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change of accountants nor any disagreements with accountants on any matter of accounting principles or practices or financial statement disclosure required to be reported under this Item.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide reasonable assurance 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 May 31, 2021.

"Management's Annual Report on Internal Control Over Financial Reporting" is included in Item 8 of this Report.

We are continuing 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 these transformation initiatives.

There have not been any 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.

ITEM 9B. OTHER INFORMATION

No disclosure is required under this item.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 of Regulation S-K regarding directors is included under “NIKE, Inc. Board of Directors” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding executive officers is included under “Information about our Executive Officers” in Item 1 of this Report. The information required by Item 406 of Regulation S-K is included under “Corporate Governance — Board Structure and Responsibilities — Code of Conduct” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K regarding the Audit & Finance Committee of the Board of Directors is included under “Corporate Governance — Board Structure and Responsibilities — Board Committees” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K regarding executive compensation is included under “Corporate Governance — Director Compensation for Fiscal 2021,” “Compensation Discussion and Analysis,” and “Stock Ownership Information — Transactions with Related Persons — Compensation Committee Interlocks and Insider Participation,” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 201(d) of Regulation S-K is included under “Compensation Discussion and Analysis — Executive Compensation Tables — Equity Compensation Plan Information” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 403 of Regulation S-K is included under “Stock Ownership Information — Stock Holdings of Certain Owners and Management” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is included under “Stock Ownership Information — Transactions with Related Persons” and “Corporate Governance — Individual Board Skills Matrix — Director Independence” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is included under “Audit Matters — Ratification of Appointment of Independent Registered Public Accounting Firm” in the definitive Proxy Statement for our 2021 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)	The following documents are filed as part of this report:	FORM 10-K PAGE NO.
1.	**Financial Statements:**	
	Report of Independent Registered Public Accounting Firm	55
	Consolidated Statements of Income for each of the three years ended May 31, 2021, May 31, 2020 and May 31, 2019	57
	Consolidated Statements of Comprehensive Income for each of the three years ended May 31, 2021, May 31, 2020 and May 31, 2019	58
	Consolidated Balance Sheets at May 31, 2021 and May 31, 2020	59
	Consolidated Statements of Cash Flows for each of the three years ended May 31, 2021, May 31, 2020 and May 31, 2019	60
	Consolidated Statements of Shareholders' Equity for each of the three years ended May 31, 2021, May 31, 2020 and May 31, 2019	61
	Notes to Consolidated Financial Statements	62
2.	**Financial Statement Schedule:**	
	II — Valuation and Qualifying Accounts for the years ended May 31, 2021, 2020 and 2019	99
	All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.	
3.	**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	Fifth Restated Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 19, 2020).	
4.1	Restated Articles of Incorporation, as amended (see Exhibit 3.1).	
4.2	Fifth Restated Bylaws, as amended (see Exhibit 3.2).	
4.3	Indenture dated as of April 26, 2013, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed April 26, 2013).	
4.4	Second Supplemental Indenture, dated as of October 29, 2015, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 3.875% Notes due 2045 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 29, 2015).	
4.5	Third Supplemental Indenture, dated as of October 21, 2016, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.375% Notes due 2026 and form of 3.375% Notes due 2046 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 21, 2016).	
4.6	Fourth Supplemental Indenture, dated as of March 27, 2020, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.400% Notes due 2025, form of 2.750% Notes due 2027, form of 2.850% Notes due 2030, form of 3.250% Notes due 2040 and form of 3.375% Notes due 2050 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed March 27, 2020).	
4.7	Description of Registrants Securities (incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2019).	
10.1	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors under the 1990 Stock Incentive Plan (incorporated by	

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10.4	Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.5	NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.6	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective April 1, 2013) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2013).*
10.7	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective June 1, 2004) (applicable to amounts deferred before January 1, 2005) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004).*
10.8	Amendment No. 1 effective January 1, 2008 to the NIKE, Inc. Deferred Compensation Plan (June 1, 2004 Restatement) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.9	NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008).*
10.10	Amended and Restated Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated July 24, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2008).*
10.11	Form of Restricted Stock Unit Agreement under the Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*
10.12	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and its executive officers (other than Mark G. Parker and John J. Donahoe II) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2020).*
10.13	Policy for Recoupment of Incentive Compensation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 20, 2010).*
10.14	NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.15	Form of Discretionary Performance Award Agreement (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2018).*
10.16	NIKE, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement filed July 25, 2017).*
10.17	Offer Letter between NIKE, Inc. and John J. Donahoe II (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.18	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and John J. Donahoe II (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.19	Form of Performance-Based Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed October 22, 2019).
10.20	Letter Agreement between NIKE, Inc. and Mark G. Parker (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.21	Credit Agreement, dated as of March 15, 2021, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 18, 2021).
10.22	NIKE, Inc. Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.23	NIKE, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.24	Form of Non-Statutory Stock Option Agreement under the NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.25	Form of Restricted Stock Unit Agreement under the NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.26	Credit Agreement dated as of August 16, 2019, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citibank N.A., as Syndication Agent, Deutsche Bank Securities, Inc., HSBC Bank USA, National Association and JPMorgan Chase, N.A., as Co-Documentation Agents, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 20, 2019).
10.27	NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 18, 2020)*
10.28	NIKE, Inc. Performance-Based Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 17, 2021)*
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (included within this Annual Report on Form 10-K).

101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File - formatted in Inline XBRL and included in Exhibit 101

* *Management contract or compensatory plan or arrangement.*

The Exhibits filed herewith do not include certain instruments with respect to long-term debt of NIKE and its subsidiaries, inasmuch as the total amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of NIKE and its subsidiaries on a consolidated basis. NIKE agrees, pursuant to Item 601(b)(4)(iii) of Regulation S-K, that it will furnish a copy of any such instrument to the SEC upon request.

Upon written request to Investor Relations, NIKE, Inc., One Bowerman Drive, Beaverton, Oregon 97005-6453, NIKE will furnish shareholders with a copy of any Exhibit upon payment of $0.10 per page, which represents our reasonable expenses in furnishing Exhibits.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(Dollars in millions)	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS(1)	WRITE-OFFS, NET	BALANCE AT END OF PERIOD
Sales returns reserve					
For the fiscal year ended May 31, 2019(2)(3)	$ 734	$ 2,209	$ (30)	$ (2,070)	$ 843
For the fiscal year ended May 31, 2020(3)	843	2,227	(31)	(2,357)	682
For the fiscal year ended May 31, 2021	682	2,571	41	(2,699)	595

(1) *Amounts included in this column primarily relate to foreign currency translation.*

(2) *As a result of the adoption of ASC Topic 606 during the first quarter of fiscal 2019, an asset for the estimated cost of inventory for expected product returns is now recognized separately from the liability for sales returns reserves, which is presented above.*

(3) *During the fourth quarter of fiscal 2021, management identified misstatements related to the amounts disclosed within Charged to Costs and Expenses and Write-offs, net. Specifically, Charged to Costs and Expenses was understated by $286 million and $250 million for fiscal 2020 and fiscal 2019, respectively, with a corresponding understatement of Write-offs, net. The Company assessed the materiality of these misstatements on prior period financial statements in accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 99, Materiality, codified in ASC 250, Presentation of Financial Statements, and concluded these misstatements were not material to any prior period. As such, the Company has revised the amounts disclosed within Charged to Costs and Expenses and Write-offs, net for the fiscal years 2020 and 2019. These misstatements did not impact the Consolidated Balance Sheets, Consolidated Statements of Income, or Consolidated Statements of Cash Flows.*

ITEM 16. FORM 10-K SUMMARY

None.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 033-63995, 333-63581, 333-63583, 333-68864, 333-68886, 333-71660, 333-104822, 333-117059, 333-133360, 333-164248, 333-171647, 333-173727, 333-208900 and 333-215439) and the Registration Statement on Form S-3 (No. 333-232770) of NIKE, Inc. of our report dated July 20, 2021 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 20, 2021

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By:	/s/ JOHN J. DONAHOE II **John J. Donahoe II** President and Chief Executive Officer
Date:	July 20, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
PRINCIPAL EXECUTIVE OFFICER AND DIRECTOR:		
/s/ JOHN J. DONAHOE II **John J. Donahoe II**	*President and Chief Executive Officer*	July 20, 2021
PRINCIPAL FINANCIAL OFFICER:		
/s/ MATTHEW FRIEND **Matthew Friend**	*Executive Vice President and Chief Financial Officer*	July 20, 2021
PRINCIPAL ACCOUNTING OFFICER:		
/s/ CHRIS L. ABSTON **Chris L. Abston**	*Vice President and Corporate Controller*	July 20, 2021
DIRECTORS:		
/s/ MARK G. PARKER **Mark G. Parker**	*Director, Chairman of the Board*	July 20, 2021
/s/ CATHLEEN A. BENKO **Cathleen A. Benko**	*Director*	July 20, 2021
/s/ ELIZABETH J. COMSTOCK **Elizabeth J. Comstock**	*Director*	July 20, 2021
/s/ JOHN G. CONNORS **John G. Connors**	*Director*	July 20, 2021
/s/ TIMOTHY D. COOK **Timothy D. Cook**	*Director*	July 20, 2021
/s/ THASUNDA B. DUCKETT **Thasunda B. Duckett**	*Director*	July 20, 2021
/s/ ALAN B. GRAF, JR. **Alan B. Graf, Jr.**	*Director*	July 20, 2021
/s/ PETER B. HENRY **Peter B. Henry**	*Director*	July 20, 2021
/s/ TRAVIS A. KNIGHT **Travis A. Knight**	*Director*	July 20, 2021
/s/ MICHELLE A. PELUSO **Michelle A. Peluso**	*Director*	July 20, 2021
/s/ JOHN W. ROGERS, JR. **John W. Rogers, Jr.**	*Director*	July 20, 2021

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED MAY 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO .

Commission File No. 1-10635

nikelogoorange.jpg

NIKE, Inc.

(Exact name of Registrant as specified in its charter)

Oregon	**93-0584541**
(State or other jurisdiction of incorporation)	*(IRS Employer Identification No.)*

One Bowerman Drive, Beaverton, Oregon 97005-6453
(Address of principal executive offices and zip code)

(503) 671-6453
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Class B Common Stock	**NKE**	**New York Stock Exchange**
(Title of each class)	*(Trading symbol)*	*(Name of each exchange on which registered)*

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

Indicate by check mark:	**YES**	**NO**
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☑	☐
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☑
• 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.	☑	☐
• whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).	☑	☐
• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.		

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
☑	☐	☐	☐	☐

• if an emerging growth company, if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.		☐
• whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.		☑
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	☐	☑

As of November 30, 2019, the aggregate market values of the Registrant's Common Stock held by non-affiliates were:

Class A	$	7,387,322,889
Class B		116,456,809,401
	$	123,844,132,290

As of July 17, 2020, the number of shares of the Registrant's Common Stock outstanding were:

Class A	315,017,252
Class B	1,244,871,297
	1,559,888,549

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on September 17, 2020 are incorporated by reference into Part III of this Report.

NIKE, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. BUSINESS

GENERAL

NIKE, Inc. was incorporated in 1967 under the laws of the State of Oregon. As used in this report, the terms "we," "us," "NIKE" and the "Company" refer to NIKE, Inc. and its predecessors, subsidiaries and affiliates, collectively, unless the context indicates otherwise. Our NIKE digital commerce website is located at *www.nike.com*. On our NIKE corporate website, located at *investors.nike.com*, we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the United States Securities and Exchange Commission (the "SEC"): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended. Our definitive Proxy Statements are also posted on our corporate website. All such filings on our corporate website are available free of charge. Copies of these filings are also available on the SEC's website (*www.sec.gov*). Also available on our corporate website are the charters of the committees of our Board of Directors, as well as our corporate governance guidelines and code of ethics; copies of any of these documents will be provided in print to any shareholder who submits a request in writing to NIKE Investor Relations, One Bowerman Drive, Beaverton, Oregon 97005-6453.

Our principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world. We sell our products directly to consumers through NIKE-owned retail stores and digital platforms (which we refer to collectively as our "NIKE Direct" operations) and to retail accounts and a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. We also offer interactive consumer experiences through our digital platforms. Virtually all of our products are manufactured by independent contractors. Nearly all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.

PRODUCTS

We focus our NIKE Brand product offerings in six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). We also market products designed for kids, as well as for other athletic and recreational uses such as American football, baseball, cricket, golf, lacrosse, skateboarding, tennis, volleyball, walking, wrestling and other outdoor activities.

NIKE's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. We place considerable emphasis on innovation and high-quality construction in the development and manufacturing of our products. Sportswear, the Jordan Brand and Running are currently our top-selling footwear categories and we expect them to continue to lead in footwear sales.

We also sell sports apparel covering the above-mentioned categories, which feature the same trademarks and are sold predominantly through the same marketing and distribution channels as athletic footwear. Our sports apparel, similar to our athletic footwear products, is designed primarily for athletic use and also demonstrates our commitment to innovation and high-quality construction. Sportswear, Training and Running are currently our top-selling apparel categories and we expect them to continue to lead in apparel sales. We often market footwear, apparel and accessories in "collections" of similar use or by category. We also market apparel with licensed college and professional team and league logos.

We sell a line of performance equipment and accessories under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, digital devices, bats, gloves, protective equipment and other equipment designed for sports activities. We also sell small amounts of various plastic products to other manufacturers through our wholly-owned subsidiary, NIKE IHM, Inc., doing business as Air Manufacturing Innovation.

Our Jordan Brand designs, distributes and licenses athletic and casual footwear, apparel and accessories predominantly focused on basketball using the Jumpman trademark. Sales and operating results for Jordan Brand products are reported within the respective NIKE Brand geographic operating segments.

Our wholly-owned subsidiary brand, Converse, headquartered in Boston, Massachusetts, designs, distributes and licenses casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

In addition to the products we sell to our wholesale customers and directly to consumers through our NIKE Direct operations, we have also entered into license agreements that permit unaffiliated parties to manufacture and sell, using NIKE-owned trademarks, certain apparel, digital devices and applications and other equipment designed for sports activities.

SALES AND MARKETING

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third quarters. However, the mix of product sales may vary considerably as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment, as well as other macroeconomic, operating and logistics-related factors, as evidenced by the impact of the COVID-19 pandemic.

Because NIKE is a consumer products company, the relative popularity and availability of various sports and fitness activities, as well as changing design trends, affect the demand for our products. We must, therefore, respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories and influencing sports and fitness preferences through extensive marketing. Failure to respond in a timely and adequate manner could have a material adverse effect on our sales and profitability. This is a continuing risk. Refer to Item 1A. Risk Factors.

We report our NIKE Brand operations based on our internal geographic organization. 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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands. The Hurley brand results, prior to its divestiture in the beginning of the third quarter of fiscal 2020, are included in North America. Sales through our NIKE Direct operations are managed within each geographic operating segment.

Converse is also a reportable operating segment and operates predominately in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. Converse direct to consumer operations, including digital commerce, are reported within the Converse operating segment results.

UNITED STATES MARKET

For fiscal 2020, NIKE Brand and Converse sales in the United States accounted for approximately 39% of total revenues, compared to 41% and 42% for fiscal 2019 and fiscal 2018, respectively. We sell our NIKE Brand, Jordan Brand and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops and other retail accounts. In the United States, we utilize NIKE sales offices to solicit such sales. During fiscal 2020, our three largest United States customers accounted for approximately 24% of sales in the United States.

Our NIKE Direct and Converse direct to consumer operations sell NIKE Brand, Jordan Brand and Converse products to consumers through various digital platforms. In addition, our NIKE Direct and Converse direct to consumer operations sell products through the following number of retail stores in the United States:

U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	212
NIKE Brand in-line stores (including employee-only stores)	28
Converse stores (including factory stores)	98
TOTAL	**338**

In the United States, NIKE has seven significant distribution centers. Four are located in Memphis, Tennessee, two of which are owned and two of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. One distribution center for Converse is located in Ontario, California, which is leased. There are other smaller distribution facilities located in various parts of the United States, some of which are leased or operated by third-parties.

INTERNATIONAL MARKETS

For fiscal 2020, non-U.S. NIKE Brand and Converse sales accounted for approximately 61% of total revenues, compared to 59% and 58% for fiscal 2019 and fiscal 2018, respectively. We sell our products to retail accounts, through our own NIKE Direct operations and through a mix of independent distributors, licensees and sales representatives around the world. We sell to thousands of retail accounts and ship products from 74 distribution centers outside of the United States. During fiscal 2020, NIKE's three largest customers outside of the United States accounted for approximately 15% of total non-U.S. sales.

In addition to NIKE and Converse owned digital commerce platforms in over 45 countries, our NIKE Direct and Converse direct to consumer businesses operate the following number of retail stores outside the United States:

NON-U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	643
NIKE Brand in-line stores (including employee-only stores)	52
Converse stores (including factory stores)	63
TOTAL	**758**

International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Macau, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Panama, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

SIGNIFICANT CUSTOMER

No customer accounted for 10% or more of our consolidated net *Revenues* during fiscal 2020.

PRODUCT RESEARCH, DESIGN AND DEVELOPMENT

We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while reducing waste.

In addition to our own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields, we also utilize research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists, physicians and other experts who consult with us and review designs, materials, concepts for product and manufacturing process improvements and compliance with product safety regulations around the world. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

As we continue to develop new technologies, we are simultaneously focused on the design of innovative products and experiences incorporating such technologies throughout our product categories and consumer applications. Using market intelligence and research, our various design teams identify opportunities to leverage new technologies in existing categories to respond to consumer preferences. The proliferation of NIKE Air, Zoom, Free, Flywire, Dri-Fit, Flyknit, Flyweave, FlyEase, ZoomX, React and Adaptive technologies, among others, throughout our Running, NIKE Basketball, Jordan Brand, Football (Soccer), Training and Sportswear categories, as well as Converse, typifies our dedication to designing innovative products.

MANUFACTURING

We are supplied by 122 footwear factories located in 12 countries. Virtually all of our footwear is manufactured outside of the United States by over 15 independent contract manufacturers, which often operate multiple factories. The largest single footwear factory accounted for approximately 9% of total fiscal 2020 NIKE Brand footwear production. For fiscal 2020, contract factories in Vietnam, Indonesia and China manufactured approximately 50%, 24% and 22% of total NIKE Brand footwear, respectively. We also have manufacturing agreements with independent contract manufacturers in Argentina and India to manufacture footwear for sale primarily within those countries. For fiscal 2020, four footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 61% of NIKE Brand footwear production.

We are supplied by 329 apparel factories located in 38 countries. The largest single apparel factory accounted for approximately 11% of total fiscal 2020 NIKE Brand apparel production. Virtually all of our apparel is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2020, contract factories in Vietnam, China and Cambodia produced approximately 28%, 23% and 12% of total NIKE Brand apparel, respectively. For fiscal 2020, two apparel contract manufacturers accounted for more than 10% of apparel production, and the top five contract manufacturers in the aggregate accounted for approximately 48% of NIKE Brand apparel production.

The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and canvas, as well as polyurethane films used to make NIKE Air-Sole cushioning components. During fiscal 2020, Air Manufacturing Innovation, a wholly-owned subsidiary, with facilities near Beaverton, Oregon, in Dong Nai Province, Vietnam and St. Charles, Missouri, as well as independent contractors in China and

Vietnam, were our suppliers of materials and cushioning components used in footwear. Air Manufacturing Innovation also manufactures and sells small amounts of various other plastic products to other manufacturers. The principal materials used in our apparel products are natural and synthetic fabrics and threads (both virgin and recycled); specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow; and plastic and metal hardware. NIKE's independent contractors and suppliers buy raw materials for the manufacturing of our footwear, apparel and equipment products. Most raw materials are available and purchased by those independent contractors and suppliers in the countries where manufacturing takes place. NIKE's independent contract manufacturers and suppliers have thus far experienced little difficulty in satisfying raw material requirements for the production of our products.

Since 1972, Sojitz Corporation of America ("Sojitz America"), a large Japanese trading company and the sole owner of our redeemable preferred stock, has performed import-export financing services for us. During fiscal 2020, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Brazil, Canada, India, South Africa and Uruguay, excluding products produced and sold in the same country. Approximately 4% of NIKE Brand sales occurred in those countries. Any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in those markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability. However, we believe that any such disruption would be short-term in duration due to the ready availability of alternative sources of financing at competitive rates.

INTERNATIONAL OPERATIONS AND TRADE

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as the implementation of, or potential changes in, foreign and domestic trade policies, increases in import duties, anti-dumping measures, quotas, safeguard measures, trade restrictions, restrictions on the transfer of funds and, in certain parts of the world, political instability and terrorism. We have not, to date, been materially affected by any such risk, but cannot predict the likelihood of such material effects occurring in the future.

In recent years, uncertain global and regional economic and political conditions have affected international trade and increased protectionist actions around the world. These trends are affecting many global manufacturing and service sectors, and the footwear and apparel industries, as a whole, are not immune. Companies in our industry are facing trade protectionism in many different regions, and in nearly all cases we are working together with industry groups to address trade issues and reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, protectionist measures have resulted in increases in the cost of our products, and additional measures, if implemented, could adversely affect sales and/or profitability for NIKE, as well as the imported footwear and apparel industry as a whole.

We monitor protectionist trends and developments throughout the world that may materially impact our industry, and we engage in administrative and judicial processes to mitigate trade restrictions. We are actively monitoring actions that may result in additional anti-dumping measures and could affect our industry. We are also monitoring for and advocating against other impediments that may limit or delay customs clearance for imports of footwear, apparel and equipment. NIKE also advocates for trade liberalization for footwear and apparel in a number of regional and bilateral free trade agreements. Changes in U.S. trade policies, including new and potential tariffs or penalties on imported goods, may negatively affect U.S. corporations with production activities outside the U.S., including NIKE. There have also been discussions and commentary regarding retaliatory actions by countries affected by the new tariffs and other changes in U.S. trade policy, and certain foreign governments have instituted or are considering imposing retaliatory measures on certain U.S. goods, which could negatively affect U.S. corporations with business operations and/or consumer markets in those countries. Depending on the extent that certain new or proposed reforms are implemented by the U.S. government and the manner in which foreign governments respond to such reforms, it may become necessary for us to change the way we conduct business, which may adversely affect our results of operations. In addition, with respect to proposed trade restrictions targeting China, which represents an important sourcing country and consumer market for us, we are working with a broad coalition of global businesses and trade associations representing a wide variety of sectors to help ensure that any legislation enacted and implemented (i) addresses legitimate and core concerns, (ii) is consistent with international trade rules and (iii) reflects and considers China's domestic economy and the important role it has in the global economic community.

Where trade protection measures are implemented, we believe that we have the ability to develop, over a period of time, adequate alternative sources of supply for the products obtained from our present suppliers. If events prevented us from acquiring products from our suppliers in a particular country, our operations could be temporarily disrupted and we could experience an adverse financial impact. However, we believe we could abate any such disruption, and that much of the adverse impact on supply would, therefore, be of a short-term nature, although alternate sources of supply might not be as cost-effective and could have an ongoing adverse impact on profitability.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or "FCPA", and other anti-bribery laws applicable to our operations. We source a significant portion of our products from, and have important consumer markets, outside of the United States, and we have an ethics and compliance program to address compliance with the FCPA and similar laws by us, our employees, agents, suppliers and other partners.

COMPETITION

The athletic footwear, apparel and equipment industry is highly competitive on a worldwide basis. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment, including adidas, Anta, ASICS, Li Ning, lululemon athletica, Puma, Under Armour and V.F. Corporation, among others. The intense competition and the rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations.

NIKE is the largest seller of athletic footwear and apparel in the world. Important aspects of competition in this industry are:

- Product attributes such as quality; performance and reliability; new product style, design, innovation and development, as well as consumer price/value.

- Consumer connection, engagement and affinity for brands and products, developed through marketing, promotion and digital experiences; social media interaction; customer support and service; identification with prominent and influential athletes, influencers, public figures, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics.

- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and on digital platforms.

We believe that we are competitive in all of these areas.

TRADEMARKS AND PATENTS

We believe that our intellectual property rights are important to our brand, our success and our competitive position. We strategically pursue available protections of these rights and vigorously protect them against third-party theft and infringement.

We use trademarks on nearly all of our products and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and the Company, and in distinguishing our goods from the goods of others. We consider our NIKE and Swoosh Design trademarks to be among our most valuable assets and we have registered these trademarks in almost 170 jurisdictions worldwide. In addition, we own many other trademarks that we use in marketing our products. We own common law rights in the trade dress of several significant shoe designs and elements. For certain trade dress, we have sought and obtained trademark registrations.

We have copyright protection in our design, graphics and other original works. When appropriate, we also obtain registered copyrights.

We file for, own and maintain many U.S. and foreign utility and design patents protecting components, technologies, materials, manufacturing techniques, features, functionality, and industrial and aesthetic designs used in and for the manufacture of various athletic and leisure footwear and apparel, athletic equipment and digital devices and related software applications. These patents expire at various times.

We believe our success depends upon our capabilities in areas such as design, research and development, production and marketing and is supported by our intellectual property rights, such as trademarks, patents and trade secrets, among others.

We have followed a policy of applying for and registering intellectual property rights in the United States and select foreign countries on trademarks, inventions, innovations and designs that we deem valuable. We also continue to vigorously protect our intellectual property, including trademarks, patents and trade secrets against third-party infringement.

EMPLOYEES

As of May 31, 2020, we had approximately 75,400 employees worldwide, including retail and part-time employees. Management is committed to maintaining an environment where all NIKE employees have the opportunity to reach their full potential. None of our employees are represented by a union, except for certain employees in the APLA geography, where local law requires those employees to be represented by a trade union. Also, in some countries outside of the United States, local laws require employee representation by works councils (which may be entitled to information and consultation on certain Company decisions) or by organizations similar to a union. In certain European countries, we are required by local law to enter into and/or comply with industry-wide or national collective bargaining agreements. NIKE has never experienced a material interruption of operations due to labor disagreements.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The executive officers of NIKE, Inc. as of July 24, 2020 are as follows:

photo_parker.jpg	***Mark G. Parker***, Executive Chairman — Mr. Parker, 64, is Executive Chairman of the Board of Directors and served as President and Chief Executive Officer from 2006 - January 2020. He has been employed by NIKE since 1979 with primary responsibilities in product research, design and development, marketing and brand management. Mr. Parker was appointed divisional Vice President in charge of product development in 1987, corporate Vice President in 1989, General Manager in 1993, Vice President of Global Footwear in 1998 and President of the NIKE Brand in 2001.
photo_johnd.jpg	***John J. Donahoe II***, President and Chief Executive Officer — Mr. Donahoe, 60, was appointed President and Chief Executive Officer in January 2020 and has been a director since 2014. He brings expertise in digital commerce, technology and global strategy. He previously served as President and Chief Executive Officer at ServiceNow, Inc. Prior to joining ServiceNow, Inc., he served as President and Chief Executive Officer of eBay, Inc. He also held leadership roles at Bain & Company for two decades.
photo_campion.jpg	***Andrew Campion***, Chief Operating Officer — Mr. Campion, 48, joined NIKE in 2007 as Vice President of Global Planning and Development, leading strategic and financial planning. He was appointed Chief Financial Officer of the NIKE Brand in 2010, responsible for leading all aspects of financial management for the Company's flagship brand. In 2014, he was appointed Senior Vice President, Strategy, Finance and Investor Relations. Mr. Campion assumed the role of Executive Vice President and Chief Financial Officer in August 2015. In April 2020, he was appointed Chief Operating Officer and leads NIKE's global technology and digital transformation, demand and supply management, manufacturing, distribution and logistics, sustainability, workplace design and connectivity, and procurement. Prior to joining NIKE, he held leadership roles in strategic planning, mergers and acquisitions, financial planning and analysis, operations and planning, investor relations and tax at The Walt Disney Company.
photo_friend.jpg	***Matthew Friend***, Executive Vice President and Chief Financial Officer — Mr. Friend, 42, joined NIKE in 2009 as Senior Director of Corporate Strategy and Development, and was appointed Chief Financial Officer of Emerging Markets in 2011. In 2014, Mr. Friend was appointed Chief Financial Officer of Global Categories, Product and Functions, and was subsequently appointed Chief Financial Officer of the NIKE Brand in 2016. He was also appointed Vice President of Investor Relations in 2019. Mr. Friend was appointed as Executive Vice President and Chief Financial Officer of NIKE, Inc. in April 2020. Prior to joining NIKE, he worked in the financial industry including roles as VP of investment banking and mergers and acquisitions at Goldman Sachs and Morgan Stanley.
photo_krane.jpg	***Hilary K. Krane***, Executive Vice President, Chief Administrative Officer and General Counsel — Ms. Krane, 56, joined NIKE as Vice President and General Counsel in 2010. In 2011, her responsibilities expanded, and she became Vice President, General Counsel and Corporate Affairs. Ms. Krane was appointed Executive Vice President, Chief Administrative Officer and General Counsel in 2013. Prior to joining NIKE, Ms. Krane was General Counsel and Senior Vice President for Corporate Affairs at Levi Strauss & Co. from 2006 to 2010. From 1996 to 2006, she was a Partner and Assistant General Counsel at PricewaterhouseCoopers LLP.
photo_matheson.jpg	***Monique S. Matheson***, Executive Vice President, Global Human Resources — Ms. Matheson, 53, joined NIKE in 1998, with primary responsibilities in the human resources function. She was appointed as Vice President and Senior Business Partner in 2011 and Vice President, Chief Talent and Diversity Officer in 2012. Ms. Matheson was appointed Executive Vice President, Global Human Resources in 2017.
photo_oneill.jpg	***Heidi O'Neill***, President of Consumer and Marketplace — Ms. O'Neill, 55, joined NIKE in 1998, and held a variety of leadership roles, including President of NIKE Direct, where she was responsible for NIKE's connection to its consumer globally through the Company's retail and digital-commerce business. She also led NIKE's women's business for seven years, growing it into a multi-billion dollar business, and leading the Company's North America apparel business as VP/GM. Ms. O'Neill was appointed as President of Consumer and Marketplace in April 2020 and is responsible for NIKE's Direct business, including all stores, e-commerce and apps globally.

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ITEM 1A. RISK FACTORS

Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historic 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 SEC, 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 SEC, including reports filed on Forms 8-K, 10-Q and 10-K, and include, among others, the following: health epidemics, pandemics and similar outbreaks, including the COVID-19 pandemic; international, national and local political, civil, 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 technology 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 orders may not be indicative of future revenues due to changes in shipment timing, the changing mix of orders with shorter lead times, 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, including without limitation, through social media or in connection with brand damaging events; 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 of the United States, including, without limitation, exchange rate fluctuations, inflation, import duties, tariffs, quotas, political and economic instability and terrorism; the potential impact of new laws, regulations or policy, including, without limitation, tariffs, import/export, trade and immigration regulations or policies; changes in government regulations; the impact of, including business and legal developments relating to, climate change and natural disasters; litigation, regulatory proceedings, sanctions or any other claims asserted against NIKE; the ability to attract and retain qualified employees, and any negative public perception with respect to key personnel or our corporate culture, values or purpose; the effects of NIKE's decision to invest in or divest of businesses and other factors referenced or incorporated by reference in this report and other reports.

Risk Factors

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 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.

Our financial condition and results of operations have been and are expected to continue to be adversely affected by the coronavirus pandemic.

A novel strain of coronavirus (COVID-19) was first identified in Wuhan, China in December 2019, and subsequently declared a pandemic by the World Health Organization. To date, this pandemic and preventative measures taken to contain or mitigate the pandemic have caused, and are expected to continue to cause, business slowdown or shutdown in affected areas and significant disruption in the financial markets, both globally and in the United States. These events have led to and could continue to lead to a decline in discretionary spending by consumers, and in turn materially impact, our business, sales, financial condition and results of operations. We have experienced a negative impact on our sales, operations and financial results, and we cannot predict the degree to, or the time period over, which our sales, operations and financial results will continue to be affected by the pandemic and preventative measures. Risks presented by the COVID-19 pandemic include, but are not limited to:

- Deterioration in economic conditions in the United States and globally;
- Reduced consumer demand for our products as consumers seek to reduce or delay discretionary spending in response to the impacts of COVID-19, including as a result of a rise in unemployment rates and diminished consumer confidence;
- Cancellation or postponement of sports seasons and sporting events in multiple countries, including in the United States, and bans on large public gatherings, which have reduced consumer spending on our products and could impact the effectiveness of our arrangements with key endorsers;
- Decreased retail traffic as a result of store closures, reduced operating hours, social distancing restrictions and/or changes in consumer behavior;
- The risk that any safety protocols in NIKE-owned or affiliated facilities will not be effective or not be perceived as effective, or that any virus-related illnesses will be linked or alleged to be linked to such facilities, whether accurate or not;
- Incremental costs resulting from the adoption of preventative measures, including providing facial coverings and hand sanitizer, rearranging operations to follow social distancing protocols, conducting temperature checks and undertaking regular and thorough disinfecting of surfaces;
- Disruption to our distribution centers and our third-party manufacturing partners and other vendors, including through the effects of facility closures, reductions in operating hours, labor shortages, and real time changes in operating procedures, including for additional cleaning and disinfection procedures;
- Bankruptcies or other financial difficulties facing our wholesale customers, which could cause them to be unable to make or delay making payments to us, or result in cancellation or reduction of their orders;
- Operational risk, including but not limited to cybersecurity risks, as a result of extended workforce remote work arrangements, and restrictions on employee travel;
- Impacts to our distribution and logistics providers' ability to operate or increases in their operating costs. These supply chain effects may have an adverse effect on our ability to meet consumer demand, including digital demand, and could result in an increase in our costs of production and distribution, including increased freight and logistics costs and other expenses; and
- Significant disruption of and volatility in global financial markets, which could have a negative impact on our ability to access capital in the future.

We continue to monitor the latest developments regarding the pandemic and have made certain assumptions regarding the pandemic for purposes of our operating, financial and tax planning projections, including assumptions regarding the duration and severity of the pandemic and the global macroeconomic impacts of the pandemic. However, we are unable to accurately predict the extent of the impact of the pandemic on our business, operations and financial condition due to the uncertainty of future developments. In particular, we believe the ultimate impacts on our business, results of operations, cash flows and financial condition will depend on, among other things, the further spread and duration of COVID-19, the requirements to take action to help limit the spread of the illness, the availability, safety and efficacy of a vaccine and treatments for COVID-19 and the economic impacts of the pandemic. Even in those regions where we are beginning to experience business recovery should those regions fail to fully contain COVID-19 or suffer a COVID-19 relapse, those markets may not recover as quickly or at all, which could have a material adverse effect on our business and results of operations. The pandemic may also affect our business, operations or financial condition in a manner that is not presently known to us or that we currently do not consider to present significant risks.

In addition, the impact of COVID-19 may also exacerbate other risks discussed in this Item 1A. Risk Factors, any of which could have a material effect on us.

Global economic conditions could have a material adverse effect on our business, operating results and financial condition.

The uncertain state of the global economy continues to impact businesses around the world. If global economic and financial market conditions further deteriorate or do not improve, the following factors could have a material adverse effect on our business, operating results and financial condition:

- Our sales are impacted by discretionary spending by consumers. Declines in consumer spending may result in reduced demand for our products, increased inventories, reduced orders from retailers for our products, order cancellations, lower revenues, higher discounts and lower gross margins.

- In the future, we may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so.

- We conduct transactions in various currencies, which creates exposure to fluctuations in foreign currency exchange rates relative to the U.S. Dollar. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies could have a significant impact on our reported operating results and financial condition.

- Continued volatility in the availability and prices for commodities and raw materials we use in our products and in our supply chain (such as cotton or petroleum derivatives) could have a material adverse effect on our costs, gross margins and profitability.

- If retailers of our products experience declining revenues or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, late retailer payments, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense.

- If retailers of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could negatively impact the sale of our products to consumers.

If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products.

Our products, services and experiences face intense competition.

NIKE is a consumer products company and the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. The athletic footwear, apparel and equipment industry is highly competitive both in the United States and worldwide. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies, private labels and large companies that have diversified lines of athletic and leisure footwear, apparel and equipment. We also compete with other companies for the production capacity of independent manufacturers that produce our products. Our NIKE Direct operations, both through our digital commerce operations and retail stores, also compete with multi-brand retailers, which sell our products through their digital platforms and physical stores, and with digital commerce platforms. In addition, we compete with respect to the digital experiences we are able to offer our consumers.

Product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, customer service, digital commerce platforms, digital services and experiences and social media presence are areas of intense competition. This, in addition to ongoing rapid changes in technology, a reduction in barriers to the creation of new footwear and apparel companies and consumer preferences in the markets for athletic and leisure footwear and apparel, athletic equipment, services and experiences, constitute significant risk factors in our operations. In addition, the competitive nature of retail, including shifts in the ways in which consumers shop, and the continued proliferation of digital commerce, constitutes a risk factor implicating our NIKE Direct and wholesale operations. If we do not adequately and timely anticipate and respond to our competitors, our costs may increase, demand for our products may decline, possibly significantly, or we may need to reduce wholesale or suggested retail prices for our products.

Failure to maintain our reputation, brand image and culture could negatively impact our business.

Our iconic brands have worldwide recognition, and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining, promoting and growing our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, product innovation and product quality. Our commitment to product innovation and quality and our continuing investment in design (including materials) and marketing may not have the desired impact on our brand image and reputation. In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and digital dissemination of advertising campaigns on our digital platforms and through our digital experiences. We could be adversely impacted if we fail to achieve any of these objectives.

Our brand value also depends on our ability to maintain a positive consumer perception of our corporate integrity, purpose and brand culture. Negative claims or publicity involving us, our culture and values, our products, services and experiences, consumer data, or any of our key employees, endorsers, sponsors or suppliers could seriously damage our reputation and brand image, regardless of whether such claims are accurate. For example, while we require our suppliers of our products to operate their business in compliance with applicable laws and regulations, we do not control their practices. Negative publicity relating to a violation or an alleged violation of policies or laws by such suppliers could damage our brand image and diminish consumer trust in our brand. Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Adverse publicity about regulatory or legal action against us, or by us, could also damage our reputation and brand image, undermine consumer confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. If the reputation, culture or image of any of our brands is tarnished or if we receive negative publicity, then our sales, financial condition and results of operations could be materially and adversely affected.

Our business is affected by seasonality, which could result in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third fiscal quarters. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal or COVID-19 related cancellations or postponements and geographic demand for particular types of footwear, apparel and equipment and in connection with the timing of significant sporting events, such as the NBA Finals, Olympics or the World Cup, among others. In addition, our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including economic conditions, changes in consumer preferences, weather conditions, outbreaks of disease, social or political unrest, availability of import quotas, transportation disruptions and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of additional factors that are beyond our control, including manufacturing and transportation costs, shifts in product sales mix and geographic sales trends, all of which we expect to continue. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our revenues and profits.

Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. However, lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, and influencing sports and fitness preferences through extensive marketing, we could experience lower sales, excess inventories or lower profit margins, any of which could have an adverse effect on our results of operations and financial condition. In addition, we market our products globally through a diverse spectrum of advertising and promotional programs and campaigns, including social media, mobile applications and online advertising. If we do not successfully market our products or if advertising and promotional costs increase, these factors could have an adverse effect on our business, financial condition and results of operations.

We rely on technical innovation and high-quality products to compete in the market for our products.

Technical innovation and quality control in the design and manufacturing process of footwear, apparel and athletic equipment is essential to the commercial success of our products. Research and development play a key role in technical innovation. We rely upon specialists in the fields of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields, as well as research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts to develop and test cutting-edge performance products. While we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems and loss of consumer confidence.

Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.

We establish relationships with professional athletes, sports teams and leagues, as well as other public figures, including artists, designers and influencers, to develop, evaluate and promote our products, as well as establish product authenticity with consumers. However, as competition in our industry has increased, the costs associated with establishing and retaining such sponsorships and other relationships have increased. If we are unable to maintain our current associations with professional athletes, sports teams and leagues, or other public figures, or to do so at a reasonable cost, we could lose the high visibility or on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brands, net revenues, expenses and profitability could be harmed.

Furthermore, if certain endorsers were to stop using our products contrary to their endorsement agreements, our business could be adversely affected. In addition, actions taken or statements made by athletes, teams or leagues, or other endorsers, associated with our products that harm the reputations of those athletes, teams or leagues, or endorsers, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition. In addition, poor performance by our endorsers, a failure to continue to correctly identify promising athletes, public figures or sports organizations, to use and endorse our products or a failure to enter into cost-effective endorsement arrangements with prominent athletes, public figures and sports organizations could adversely affect our brand, sales and profitability.

Economic factors beyond our control, and changes in the global economic environment, including fluctuations in inflation and currency exchange rates, could result in lower revenues, higher costs and decreased margins and earnings.

A majority of our products are manufactured and sold outside of the United States, and we conduct purchase and sale transactions in various currencies, which creates exposure to the volatility of global economic conditions, including fluctuations in inflation and foreign currency exchange rates. Additionally, there has been, and may continue to be, volatility in currency exchange rates as a result of the United Kingdom's exit from the European Union, commonly referred to as "Brexit" or new or proposed U.S. policy changes that impact the U.S. Dollar value relative to other international currencies. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into U.S. Dollars for consolidated financial reporting, as weakening of foreign currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations have adversely affected and could continue to have an adverse effect on our results of operations and financial condition.

We may hedge certain foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger U.S. Dollar or other trading currency, but they also reduce the positive impact of a weaker U.S. Dollar or other trading currency. Our future financial results could be significantly affected by the value of the U.S. Dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

We may be adversely affected by the financial health of our customers.

We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of our products, we offer certain customers the opportunity to place orders five to six months ahead of delivery under our futures ordering program. These advance orders may be canceled under certain conditions, and the risk of cancellation may increase when dealing with financially unstable retailers or retailers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties up to and including bankruptcies, which have had an adverse effect on our sales, our ability to collect on receivables and our financial condition. When the retail economy weakens or as consumer behavior shifts, retailers may be more cautious with orders. A slowing or changing economy in our key markets could adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operations and financial condition. In addition, product sales are dependent in part on high quality merchandising and an appealing retail environment to attract consumers, which requires continuing investments by retailers. Retailers that experience financial difficulties may fail to make such investments or delay them, resulting in lower sales and orders for our products.

Failure to accurately forecast consumer demand could lead to excess inventories or inventory shortages, which could result in decreased operating margins, reduced cash flows and harm to our business.

To meet anticipated demand for our products, we purchase products from manufacturers outside of our futures ordering program and in advance of customer orders, which we hold in inventory and resell to customers. There is a risk we may be unable to sell excess products ordered from manufacturers. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have an adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer, distributor and consumer relationships and diminish brand loyalty. The difficulty in forecasting demand also makes it difficult to estimate our future results of operations, financial condition and cash flows from period to period. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income, and we are unlikely to forecast such effects with any certainty in advance.

Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

Our NIKE Direct operations, including our retail stores and digital platforms, have required and will continue to require significant investment. Our NIKE Direct stores have required and will continue to require substantial fixed investment in equipment and leasehold improvements and personnel. We have entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and marketing activities and to integrate with our digital platforms. Because of their unique design and technological elements, locations and size, these stores require substantially more investment than other stores. Due to the high fixed-cost structure associated with our NIKE Direct retail stores, a decline in sales, a shift in consumer behavior away from brick-and-mortar retail, or the closure, temporary or otherwise, or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and employee-related costs.

Many factors unique to retail operations, some of which are beyond our control, pose risks and uncertainties. Risks include, but are not limited to: credit card fraud; mismanagement of existing retail channel partners; and inability to manage costs associated with store construction and operation.

In addition, we have made significant investments in digital technologies and information systems for the digital aspect of our NIKE Direct operations, and our digital offerings will require continued investment in the development and upgrading of our technology platforms. In order to deliver high-quality digital experiences, our digital platforms must be designed effectively and work well with a range of other technologies, systems, networks, and standards that we do not control. We may not be successful in developing platforms that operate effectively with these technologies, systems, networks or standards. A growing portion of consumers access our NIKE Direct digital platforms, but in the event that it is more difficult for consumers to access and use our digital platforms, consumers find that our digital platforms do not effectively meet their needs or expectations or consumers choose not to access or use our digital platforms or use devices that do not offer access to our platforms, the success of our NIKE Direct operations could be adversely impacted. Our competitors may develop, or have already developed, digital experiences, features, content, services or technologies that are similar to ours or that achieve greater acceptance.

We may not realize a satisfactory return on our investment in our NIKE Direct operations and management's attention from our other business opportunities could be diverted, which could have an adverse effect on our business, financial condition or results of operations.

If the technology-based systems that give our consumers the ability to shop or interact with us online do not function effectively, our operating results, as well as our ability to grow our digital commerce business globally or to retain our customer base, could be materially adversely affected.

Many of our consumers shop with us through our digital platforms. Increasingly, consumers are using mobile-based devices and applications to shop online with us and with our competitors, and to do comparison shopping, as well as to engage with us and our competitors through digital experiences that are offered on mobile platforms. We are increasingly using social media and proprietary mobile applications to interact with our consumers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, user-friendly digital commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers or any failure to provide attractive digital experiences to our customers could place us at a competitive disadvantage, result in the loss of digital commerce and other sales, harm our reputation with consumers, have a material adverse impact on the growth of our digital commerce business globally and could have a material adverse impact on our business and results of operations. In addition, as use of our digital platforms continues to grow, we will need an increasing amount of technical infrastructure to continue to satisfy our consumers' needs. If we fail to continue to effectively scale and adapt our digital platforms to accommodate increased consumer demand, our business may be subject to interruptions, delays or failures and consumer demand for our products and digital experiences could decline.

Risks specific to our digital commerce business also include diversion of sales from our and our retailers' brick and mortar stores, difficulty in recreating the in-store experience through direct channels and liability for online content. Our failure to successfully respond to these risks might adversely affect sales in our digital commerce business, as well as damage our reputation and brands.

We rely significantly on information technology to operate our business, including our supply chain and retail operations, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

We are heavily dependent on information technology systems and networks, including the Internet and third-party services ("Information Technology Systems"), across our supply chain, including product design, production, forecasting, ordering, manufacturing, transportation, sales and distribution, as well as for processing financial information for external and internal reporting purposes, retail operations and other business activities. Information Technology Systems are critical to many of our operating activities and our business processes and may be negatively impacted by any service interruption or shutdown. For example, our ability to effectively manage and maintain our inventory and to ship products to customers on a timely basis depends significantly on the reliability of these Information Technology Systems. Over a number of years, we have implemented Information Technology Systems in all of the geographical regions in which we operate. Our work to integrate, secure and enhance these systems and related processes in our global operations is ongoing and NIKE will continue to invest in these efforts. We cannot provide assurance, however, that the measures we take to secure and enhance these systems will be sufficient to protect our Information Technology Systems and prevent cyber-attacks, system failures or data or information loss. The failure of these systems to operate effectively, including as a result of security breaches, viruses, hackers, malware, natural disasters, vendor business interruptions or other causes, or failure to properly maintain, protect, repair or upgrade systems, or problems with transitioning to upgraded or replacement systems could cause delays in product fulfillment and reduced efficiency of our operations, could require significant capital investments to remediate the problem which may not be sufficient to cover all eventualities, and may have an adverse effect on our reputation, results of operations and financial condition. Further, like other companies in the retail industry, we have in the past experienced, and we expect to continue to experience, cyber-attacks, including phishing, and other attempts to breach, or gain unauthorized access to, our systems. To date, these attacks have not had a material impact on our operations, but we cannot provide assurance that they will not have an impact in the future.

We also use Information Technology Systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. If Information Technology Systems suffer severe damage, disruption or shutdown and our business continuity plans, or those of our vendors, do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, which could result in lost revenues and profits, as well as reputational damage. Furthermore, we depend on Information Technology Systems and personal data collection for digital marketing, digital commerce, consumer engagement and the marketing and use of our digital products and services. We also rely on our ability to engage in electronic communications throughout the world between and among our employees as well as with other third parties, including customers, suppliers, vendors and consumers. Any interruption in Information Technology Systems may impede our ability to engage in the digital space and result in lost revenues, damage to our reputation, and loss of users.

We are subject to a complex array of laws and regulations and litigation and other legal and regulatory proceedings, which could have an adverse effect on our business, financial condition and results of operations.

As a multinational corporation with operations and distribution channels throughout the world, we are subject to and must comply with extensive laws and regulations in the United States and other jurisdictions in which we have operations and distribution channels. If we or our employees, agents, suppliers, and other partners fail to comply with any of these laws or regulations, such failure could subject us to fines, sanctions or other penalties that could negatively affect our reputation, business, financial condition and results of operations. We are involved in various types of claims, lawsuits, regulatory proceedings and government investigations relating to our business, our products and the actions of our employees and representatives, including contractual and employment relationships, product liability, antitrust, trademark rights and a variety of other matters. It is not possible to predict with certainty the outcome of any such legal or regulatory proceedings or investigations, and we could in the future incur judgments, fines or penalties, or enter into settlements of lawsuits and claims that could have a material adverse effect on our business, financial condition and results of operations and negatively impact our reputation. The global nature of our business means legal and compliance risks, such as anti-bribery, anti-corruption, fraud, trade, environmental, competition, privacy and other regulatory matters, will continue to exist and additional legal proceedings and other contingencies will arise from time to time, which could adversely affect us. In addition, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations, may result in significant unanticipated legal and reputational risks. Any current or future legal or regulatory proceedings could divert management's attention from our operations and result in substantial legal fees.

Changes to U.S. or other countries' trade policies and tariff and import/export regulations or our failure to comply with such regulations may have a material adverse effect on our reputation, business, financial condition and results of operations.

Changes in U.S. or international social, political, regulatory and economic conditions could impact our business, financial condition and results of operations. In particular, political and economic instability, geopolitical conflicts, political unrest, civil strife, terrorist activity, acts of war, public corruption, expropriation and other economic or political uncertainties in the United States or internationally could interrupt and negatively affect the sale of our products or other business operations. Any negative sentiment toward the United States as a result of any such changes could also adversely affect our business.

In addition, changes in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business could adversely affect our business. The U.S. presidential administration has instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business. It may be time-consuming and expensive for us to alter our business operations in order to adapt to or comply with any such changes.

Changes or proposed changes in U.S. or other countries' trade policies may result in restrictions and economic disincentives on international trade. Tariffs and other changes in U.S. trade policy have in the past and could in the future trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing retaliatory measures on certain U.S. goods. Further, any emerging protectionist or nationalist trends either in the United States or in other countries could affect the trade environment. The Company, similar to many other multinational corporations, does a significant amount of business that would be impacted by changes to the trade policies of the United States and foreign countries (including governmental action related to tariffs, international trade agreements, or economic sanctions). Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof or the economy of another country in which we conduct operations, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations.

Failure to adequately protect or enforce our intellectual property rights could adversely affect our business.

We periodically discover counterfeit reproductions of our products or products that otherwise infringe our intellectual property rights. If we are unsuccessful in enforcing our intellectual property rights, continued sales of these products could adversely affect our sales and our brand and could result in a shift of consumer preference away from our products.

The actions we take to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others. We also may be unable to prevent others from seeking to block sales of our products as violations of proprietary rights.

We may be subject to liability if third parties successfully claim we infringe on their intellectual property rights. Defending infringement claims could be expensive and time-consuming and might result in our entering into costly license agreements. We also may be subject to significant damages or injunctions against development, use, importation and/or sale of certain products.

We take various actions to prevent the unauthorized use and/or disclosure of our confidential information and intellectual property rights. These actions include contractual measures such as entering into non-disclosure and non-compete agreements and agreements relating to our collaborations with third parties and providing confidential information awareness training. Our controls and efforts to prevent unauthorized use and/or disclosure of confidential information and intellectual property rights might not always be effective. For example, confidential information related to business strategy, innovations, new technologies, mergers and acquisitions, unpublished financial results or personal data could be prematurely, inadvertently, or improperly used and/or disclosed, resulting in a loss of reputation, loss of intellectual property rights, a decline in our stock price and/or a negative impact on our market position, and could lead to damages, fines, penalties or injunctions.

In addition, the laws of certain countries may not protect or allow enforcement of intellectual property rights to the same extent as the laws of the United States. We may face significant expenses and liability in connection with the protection of our intellectual property rights, including outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

We are subject to data security and privacy risks that could negatively affect our results, operations or reputation.

In addition to our own sensitive and proprietary business information, we handle transactional and personal information about our wholesale customers and consumers and users of our digital experiences, which include online distribution channels and product engagement, adaptive products and personal fitness applications. Hackers and data thieves are increasingly sophisticated and operate social engineering, such as phishing, and large-scale, complex automated attacks that can evade detection for long periods of time. Any breach of our or our service providers' network, or other vendor systems, may result in the loss of confidential business and financial data, misappropriation of our consumers', users' or employees' personal information or a disruption of our business. Any of these outcomes could have a material adverse effect on our business, including unwanted media attention, impairment of our consumer and customer relationships, damage to our reputation; resulting in lost sales and consumers, fines, lawsuits, or significant legal and remediation expenses. We also may need to expend significant resources to protect against, respond to and/or redress problems caused by any breach.

In addition, we must comply with increasingly complex and rigorous, and sometimes conflicting, regulatory standards enacted to protect business and personal data in the United States, Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation (the “GDPR”), which became effective on May 25, 2018; and California passed the California Consumer Privacy Act (the "CCPA") which became effective on January 1, 2020. These laws impose additional obligations on companies regarding the handling of personal data and provide certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR and CCPA) and regulations can be costly and time consuming, and any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, imposition of fines by governmental authorities and damage to our reputation and credibility and could have a negative impact on revenues and profits.

Our international operations involve inherent risks which could result in harm to our business.

Virtually all of our athletic footwear and apparel is manufactured outside of the United States, and the majority of our products are sold outside of the United States. Accordingly, we are subject to the risks generally associated with global trade and doing business abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political unrest, disruptions or delays in cross-border shipments and changes in economic conditions in countries in which our products are manufactured or where we sell products. This includes, for example, the uncertainty surrounding the effect of Brexit, including changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union, as well as new and proposed changes affecting tax laws and trade policy in the United States and elsewhere as further described below under *“We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate”* and *“Changes to U.S. or other countries' trade policies and tariff and import/export regulations or our failure to comply with such regulations may have a material adverse effect on our reputation, business, financial condition and* *results of operations."* The U.S. presidential administration has indicated a focus on policy reforms that discourage U.S. corporations from outsourcing manufacturing and production activities to foreign jurisdictions, including through tariffs or penalties on goods manufactured outside the United States, which may require us to change the way we conduct business and adversely affect our results of operations. The administration has also targeted the specific practices of certain U.S. multinational corporations in public statements which, if directed at us, could harm our reputation or otherwise negatively impact our business.

In addition, disease outbreaks, including the current COVID-19 pandemic, terrorist acts and military conflict have increased the risks of doing business abroad. These factors, among others, could affect our ability to manufacture products or procure materials, our ability to import products, our ability to sell products in international markets and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be adversely affected. In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States and other countries. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, safeguard measures, anti-dumping duties, cargo restrictions to prevent terrorism, restrictions on the transfer of currency, climate change legislation, product safety regulations or other charges or restrictions, any of which could have an adverse effect on our results of operations and financial condition.

Furthermore, we are subject to the U.S. Foreign Corrupt Practices Act as well as the anti-corruption laws of other countries in which we operate. Although we implement policies and procedures designed to promote compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation could result in sanctions or other penalties and have an adverse effect on our business, reputation and operating results.

Our products are subject to risks associated with overseas sourcing, manufacturing and financing.

The principal materials used in our apparel products — natural and synthetic fabrics and threads, specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat or repel rain and/or snow as well as plastic and metal hardware — are available in countries where our manufacturing takes place. The principal materials used in our footwear products — natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, natural and synthetic fabrics and threads, nylon, canvas and polyurethane films — are also locally available to manufacturers. Both our apparel and footwear products are dependent upon the ability of our unaffiliated contract manufacturers to locate, train, employ and retain adequate personnel. NIKE contractors and suppliers buy raw materials and are subject to wage rates that are oftentimes regulated by the governments of the countries in which our products are manufactured.

There could be a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption, our contract manufacturers might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price or at all. Further, our unaffiliated contract manufacturers have experienced and may continue to experience in the future, unexpected increases in work wages, whether government mandated or otherwise and increases in compliance costs due to governmental regulation concerning certain metals used in the manufacturing of our products. In addition, we cannot be certain that our unaffiliated manufacturers will be able to fill our orders in a timely manner. If we experience significant increases in demand, or reductions in the availability of materials, or need to replace an existing manufacturer, there can be no assurance additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms acceptable to us, or at all, or that any supplier or manufacturer would allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing or sources of materials, we may encounter delays in production and added costs as a result of the time it takes to train suppliers and manufacturers in our methods, products, quality control standards and labor, health and safety standards. Any delays, interruption or increased costs in labor or wages, or the supply of materials or manufacture of our products could have an adverse effect on our ability to meet retail customer and consumer demand for our products and result in lower revenues and net income both in the short- and long-term.

Because independent manufacturers make a majority of our products outside of our principal sales markets, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, work stoppages, port strikes, infrastructure congestion or other factors, and costs and delays associated with consolidating or transitioning between manufacturers, could adversely impact our financial performance. In addition, manufacturing delays or unexpected demand for our products may require us to use faster, but more expensive, transportation methods such as air freight, which could adversely affect our profit margins. The cost of oil is a significant component in manufacturing and transportation costs, so increases in the price of petroleum products can adversely affect our profit margins. Changes in U.S. trade policies, including new and potential changes to import tariffs and existing trade policies and agreements, could also have a significant impact on our activities in foreign jurisdictions, and could adversely affect our results of operations.

In addition, Sojitz America performs import-export financing services and purchasing services for NIKE Brand products sold in certain countries and any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could have an adverse effect on our ability to acquire products from our suppliers and to deliver products to our customers in the countries in which Sojitz provides services, which could in turn adversely affect our sales and profitability.

We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate.

We are subject to the tax laws in the United States and numerous foreign jurisdictions. Current economic and political conditions make tax laws and regulations, or their interpretation and application, in any jurisdiction subject to significant change.

We earn a substantial portion of our income in foreign countries and are subject to the tax laws of those jurisdictions. For example, effective January 1, 2020, the tax law in the Netherlands, one of the Company's major jurisdictions, changed.

Other proposals to reform foreign tax laws could significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form these proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our income tax expense and cash flows.

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays and rulings. We also utilize tax rulings and other agreements to obtain certainty in treatment of certain tax matters. These holidays and rulings expire in whole or in part from time to time and may be extended when certain conditions are met, or terminated if certain conditions are not met. The impact of any changes in conditions would be the loss of certainty in treatment thus potentially impacting our effective income tax rate. For example, in January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to current and prior periods and the Company's Netherlands income taxes in the future could increase.

We are also subject to the examination of our tax returns by the United States Internal Revenue Service (“IRS”) and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for income taxes. Although we believe our tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from our historical income tax provisions and accruals. The results of audits or related disputes could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. For example, we and our subsidiaries are also engaged in a number of intercompany transactions across multiple tax jurisdictions. Although we believe we have clearly reflected the economics of these transactions and the proper local transfer pricing documentation is in place, tax authorities may propose and sustain adjustments that could result in changes that may impact our mix of earnings in countries with differing statutory tax rates.

Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk and impair our ability to sell products.

The athletic footwear, apparel and equipment retail markets in some countries are dominated by a few large athletic footwear, apparel and equipment retailers with many stores and accelerating digital commerce capabilities. The market shares of these retailers may increase through acquisitions and construction of additional stores and investments in digital capacity, and as a result of attrition as struggling retailers exit the market. Consolidation of our retailers will concentrate our credit risk with a smaller set of retailers, any of whom may experience declining sales or a shortage of liquidity, including as a result of the COVID-19 pandemic. In addition, increasing market share concentration among a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our products, we may be unable to find sufficient retail outlets for our products to sustain the same level of sales and revenues.

We are subject to the risk our licensees may not generate expected sales or maintain the value of our brands.

We currently license, and expect to continue licensing, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. If our licensees fail to successfully market and sell licensed products, or fail to obtain sufficient capital or effectively manage their business operations, customer relationships, labor relationships, supplier relationships or credit risks, it could adversely affect our revenues, both directly from reduced royalties received and indirectly from reduced sales of our other products.

We also rely on our licensees to help preserve the value of our brands. Although we attempt to protect our brands through approval rights over the design, production processes, quality, packaging, merchandising, distribution, advertising and promotion of our licensed products, we cannot completely control the use of our licensed brands by our licensees. The misuse of a brand by or negative publicity involving a licensee could have a material adverse effect on that brand and on us.

Failure of our contractors or our licensees' contractors to comply with our code of conduct, local laws and other standards could harm our business.

We work with hundreds of contractors outside of the United States to manufacture our products, and we also have license agreements that permit unaffiliated parties to manufacture or contract for the manufacture of products using our intellectual property. We require the contractors that directly manufacture our products and our licensees that make products using our intellectual property (including, indirectly, their contract manufacturers) to comply with a code of conduct and other environmental, health and safety standards for the benefit of workers. We also require our direct contractors and the contractors of our licensees to comply with applicable standards for product safety. Notwithstanding their contractual obligations, from time to time contractors may not comply with such standards or applicable local law or our licensees may fail to enforce such standards or applicable local law on their contractors. If one or more of our direct or indirect contractors violates or fails to comply with or is accused of violating or failing to comply with such standards and laws, this could harm our reputation or result in a product recall and, as a result, could have an adverse effect on our sales and financial condition. Negative publicity regarding production methods, alleged unethical or illegal practices or workplace or related conditions of any of our suppliers, manufacturers or licensees could adversely affect our brand image and sales, force us to locate alternative suppliers, manufacturers or licenses or result in the imposition of additional regulations, including new or additional quotas, tariffs, product safety regulations or other regulatory measures, by governmental authorities.

If one or more of our counterparty financial institutions default on their obligations to us or fail, we may incur significant losses.

As part of our hedging activities, we enter into transactions involving derivative financial instruments, which may include forward contracts, commodity futures contracts, option contracts, collars and swaps with various financial institutions. In addition, we have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the United States and abroad. As a result, we are exposed to the risk of default by or failure of counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default, or our assets deposited or held in accounts with such counterparty, may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

We rely on a concentrated source base of contract manufacturers to supply a significant portion of our footwear products.

NIKE is supplied by 122 footwear factories located in 12 countries. We do not own or operate any of the footwear manufacturing facilities and depend upon independent contract manufacturers to manufacture all of the footwear products we sell. In fiscal 2020, four footwear contract manufacturers each accounted for greater than 10% of fiscal 2020 footwear production and in aggregate accounted for approximately 61% of NIKE Brand footwear production in fiscal 2020. Our ability to meet our customers' needs depends on our ability to maintain a steady supply of products from our independent contract manufacturers. If one or more of our significant suppliers were to sever their relationship with us or significantly alter the terms of our relationship, including due to changes in applicable trade policies, or be unable to perform, including as a result of the COVID-19 pandemic, we may not be able to obtain replacement products in a timely manner, which could have a material adverse effect on our sales, financial condition or results of operations. Additionally, if any of our primary contract manufacturers fail to make timely shipments, do not meet our quality standards or otherwise fail to deliver us product in accordance with our plans, there could be a material adverse effect on our results of operations.

Certain of our manufacturers are highly specialized and only produce a specific type of product. Such manufacturing partners may go out of business if consumer preferences or market conditions change such that there is no longer sufficient demand for the types of products they produce. If, in the future, the relevant products are again in demand and the specialized manufacturers no longer exist, we may not be able to locate replacement facilities to manufacture certain products in a timely manner or at all, which could have a material adverse effect on our sales, financial condition or results of operations.

Our success depends on our global distribution facilities.

We distribute our products to customers directly from the factory and through distribution centers located throughout the world. Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies and growth, particularly in emerging markets, depends on the proper operation of our distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties (including those involved in shipping product to and from our distribution facilities). Our distribution facilities have in the past and could be interrupted by information technology problems, disasters such as earthquakes or fires or outbreaks of disease or government actions taken to mitigate their spread. Any significant failure in our distribution facilities could result in an adverse effect on our business. We maintain business interruption insurance, but it may not adequately protect us from adverse effects caused by significant disruptions in our distribution facilities.

The market for prime real estate is competitive.

Our ability to effectively obtain real estate to open new retail stores and otherwise conduct our operations, both domestically and internationally, depends on the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics and other factors. We also must be able to effectively renew our existing real estate leases. In addition, from time to time, we seek to downsize, consolidate, reposition or close some of our real estate locations, which may require modification of an existing lease. Failure to secure adequate new locations or successfully modify leases for existing locations, or failure to effectively manage the profitability of our existing fleet of retail stores, could have an adverse effect on our operating results and financial condition.

Additionally, the economic environment may make it difficult to determine the fair market rent of real estate properties domestically and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents and to renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet our targets or efficiently manage the profitability of our existing fleet of stores, which could have an adverse effect on our operating results and financial condition.

Extreme weather conditions and natural disasters could negatively impact our operating results and financial condition.

Extreme weather conditions in the areas in which our retail stores, suppliers, manufacturers, customers, distribution centers, headquarters and vendors are located could adversely affect our operating results and financial condition. Moreover, natural disasters such as earthquakes, hurricanes and tsunamis, whether occurring in the United States or abroad, and their related consequences and effects, including energy shortages and public health issues, have in the past temporarily disrupted, and could in the future disrupt, our operations, the operations of our vendors, manufacturers and other suppliers or have in the past and could result in economic instability that may negatively impact our operating results and financial condition. In particular, if a natural disaster were to occur in an area in which we or our suppliers, manufacturers, customers, distribution centers and vendors are located, our continued success would depend, in part, on the safety and availability of the relevant personnel and facilities and proper functioning of our or third parties' computer, telecommunication and other systems and operations. In addition, a severe weather event could negatively impact retail traffic to our stores or stores that carry our products and could have an adverse impact on consumer spending, any of which could in turn result in negative point-of-sale trends for our merchandise. Further, climate change may increase both the frequency and severity of extreme weather conditions and natural disasters, which may affect our business operations, either in a particular region or globally, as well as the activities of our third-party vendors and other suppliers, manufacturers and customers. In addition, the physical changes prompted by climate change could result in changes in regulations or consumer preferences, which could in turn affect our business, operating results and financial condition. We believe the diversity of locations in which we operate, our operational size and our Information Technology Systems position us well, but if we were to experience a local or regional disaster or other business continuity event, we could still experience operational challenges, in particular depending upon how a local or regional event may affect our human capital across our operations or with regard to particular aspects of our operations, such as key executive officers or personnel. Further, if we are unable to find alternative suppliers, replace capacity at key manufacturing or distribution locations or quickly repair damage to our Information Technology Systems or supply systems, we could be late in delivering, or be unable to deliver, products to our customers. These events could result in reputational damage, lost sales, cancellation charges or markdowns, all of which could have an adverse effect on our business, results of operations and financial condition.

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in technology, business infrastructure, new businesses, product offering and manufacturing innovation and expansion of existing businesses, such as our NIKE Direct operations, which require substantial cash investments and management attention. We believe cost-effective investments are essential to business growth and profitability; however, significant investments are subject to typical risks and uncertainties inherent in developing a new business or expanding an existing business. The failure of any significant investment to provide expected returns or profitability could have a material adverse effect on our financial results and divert management attention from more profitable business operations. See also "*Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties*."

The success of our business depends, in part, on high-quality employees, including key personnel as well as our ability to maintain our workplace culture and values.

Our success depends in part on the continued service of high-quality employees, including key executive officers and personnel. The loss of the services of key individuals, or any negative perception with respect to these individuals, or our workplace culture or values, could harm our business. Our success also depends on our ability to recruit, retain and engage our personnel sufficiently, both to maintain our current business and to execute our strategic initiatives. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel. In addition, shifts in U.S. immigration policy could negatively impact our ability to attract, hire and retain highly skilled employees who are from outside the United States. We also believe that our corporate culture has been a key driver of our success, and we have invested substantial time and resources in building, maintaining and evolving our culture. Any failure to preserve and evolve our culture could negatively affect our future success, including our ability to retain and recruit employees.

Our business operations and financial performance could be adversely affected by changes in our relationship with our workforce or changes to United States or foreign employment regulations.

We have significant exposure to changes in domestic and foreign laws governing our relationships with our workforce, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll taxes, which could have a direct impact on our operating costs. A significant increase in minimum wage or overtime rates in countries where we have workforces could have a significant impact on our operating costs and may require that we relocate those operations or take other steps to mitigate such increases, all of which may cause us to incur additional costs. There is also a risk of potential claims that we have violated laws related to discrimination and harassment, health and safety, wage and hour laws, criminal activity, personal injury and other claims. In addition, if there were a significant increase in the number of members of our workforce who are members of labor organizations or become parties to collective bargaining agreements, we could be vulnerable to a strike, work stoppage or other labor action, which could have an adverse effect on our business.

The sale of a large number of shares of common stock by our principal stockholder could depress the market price of our common stock.

As of June 30, 2020, Swoosh, LLC beneficially owned approximately 75% of our Class A Common Stock. If, on June 30, 2020, all of these shares were converted into Class B Common Stock, the commensurate ownership percentage of our Class B Common Stock would be approximately 16%. The shares are available for resale, subject to the requirements of the U.S. securities laws and the terms of the limited liability company agreement governing Swoosh, LLC. The sale or prospect of a sale of a substantial number of these shares could have an adverse effect on the market price of our common stock. Swoosh, LLC was formed by Philip H. Knight, our Chairman Emeritus, to hold the majority of his shares of Class A Common Stock. Swoosh, LLC is controlled by Mr. Knight's son and NIKE director, Travis Knight.

Changes in our credit ratings or macroeconomic conditions may affect our liquidity, increasing borrowing costs and limiting our financing options.

Our long-term debt is currently rated Investment Grade by Standard & Poor's and Moody's Investors Service. If our credit ratings are lowered, borrowing costs for our existing facilities or for future long-term debt or short-term credit facilities may increase and our financing options, including our access to the unsecured credit market or the capital markets, could be adversely affected. We may also be subject to restrictive covenants that would reduce our flexibility to, among other things, incur additional indebtedness, make restricted payments, pledge assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Failure to comply with such covenants could result in a default, and as a result, the commitments of our lenders under our credit agreements may be terminated and the maturity of amounts owed may be accelerated. In addition, macroeconomic conditions, such as increased volatility or disruption in the credit markets, could adversely affect our ability to refinance existing debt.

If our internal controls are ineffective, our operating results could be adversely affected.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, as provided in “Management's Discussion and Analysis of Financial Condition and Results of Operations.” The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenues and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory reserves, contingent payments under endorsement contracts, accounting for property, plant and equipment and definite-lived assets, hedge accounting for derivatives, stock-based compensation, income taxes and other contingencies. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class B Common Stock.

Anti-takeover provisions may impair an acquisition of the Company or reduce the price of our common stock.

There are provisions within our articles of incorporation and Oregon law intended to protect shareholder interests by providing the Board of Directors a means to attempt to deny coercive takeover attempts or to negotiate with a potential acquirer in order to obtain more favorable terms. Such provisions include a control share acquisition statute, a freeze-out statute, two classes of stock that vote separately on certain issues, and the fact that holders of Class A Common Stock elect three-quarters of the Board of Directors rounded down to the next whole number. However, such provisions could discourage, delay or prevent an unsolicited merger, acquisition or other change in control of our company that some shareholders might believe to be in their best interests or in which shareholders might receive a premium for their common stock over the prevailing market price. These provisions could also discourage proxy contests for control of the Company.

We may fail to meet market expectations, which could cause the price of our stock to decline.

Our Class B Common Stock is traded publicly, and at any given time various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as analysts' opinions of our future performance, which may, in part, be based upon any guidance we have provided. Analysts' estimates are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has been brought against NIKE and other companies following a decline in the market price of their securities. If our stock price is volatile for any reason, we may become involved in this type of litigation in the future. Any litigation could result in reputational damage, substantial costs and a diversion of management's attention and resources needed to successfully run our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following is a summary of principal properties owned or leased by NIKE:

The NIKE World Campus, owned by NIKE and located near Beaverton, Oregon, USA, is an approximately 400-acre site consisting of over 40 buildings which, together with adjacent leased properties, functions as our world headquarters and is occupied by approximately 12,800 employees engaged in management, research, design, development, marketing, finance and other administrative functions serving nearly all of our segments. We lease a similar, but smaller, administrative facility in Hilversum, the Netherlands, which serves as the headquarters for our Europe, Middle East & Africa geography and management of certain brand functions for our non-U.S. operations. We also lease an office complex in Shanghai, China, our headquarters for our Greater China geography, occupied by employees focused on implementing our wholesale, NIKE Direct and merchandising strategies in the region, among other functions.

In the United States, NIKE has seven significant distribution centers. Four are located in Memphis, Tennessee, two of which are owned and two of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. One distribution center for Converse is located in Ontario, California, which is leased. NIKE has a number of distribution facilities outside the United States, some of which are leased and operated by third-party logistics providers. The most significant distribution facilities outside the United States are located in Laakdal, Belgium; Taicang, China; Tomisato, Japan and Incheon, Korea, all of which we own, as well as in Suzhou, China, which is leased and operated by a third-party logistics provider.

Air Manufacturing Innovation manufactures cushioning components used in footwear at NIKE-owned and leased facilities located near Beaverton, Oregon, and in Dong Nai Province, Vietnam, as well as at NIKE-owned facilities in St. Charles, Missouri.

Aside from the principal properties described above, we lease many offices worldwide for sales and administrative purposes. We lease 1,091 retail stores worldwide, which primarily consist of factory stores. See “United States Market” and “International Markets” for additional information regarding our retail stores. Our leases expire at various dates through the year 2043.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NIKE's Class B Common Stock is listed on the New York Stock Exchange and trades under the symbol NKE. At July 17, 2020, there were 23,114 holders of record of NIKE's Class B Common Stock and 14 holders of record of NIKE's Class A Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class A Common Stock is not publicly traded, but each share is convertible upon request of the holder into one share of Class B Common Stock. Refer to Selected Quarterly Financial Data in Part II, Item 6 of this Report for dividends declared on the Class A and Class B Common Stock.

In June 2018, the Board of Directors approved a four-year, $15 billion share repurchase program. As of May 31, 2020, the Company had repurchased 45.2 million shares at an average price of $89.00 per share for a total approximate cost of $4.0 billion under this program.

All share repurchases were made under NIKE's publicly announced program and there are no other programs under which the Company repurchases shares. The following table presents a summary of share repurchases made during the quarter ended May 31, 2020:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (IN MILLIONS)
March 1 — March 31, 2020	1,872,265	$ 85.08	$ 10,981
April 1 — April 30, 2020	—	$ —	$ 10,981
May 1 — May 31, 2020	—	$ —	$ 10,981
	1,872,265	**$ 85.08**	

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PERFORMANCE GRAPH

The following graph demonstrates a five-year comparison of cumulative total returns for NIKE's Class B Common Stock; the Standard & Poor's 500 Stock Index; the Standard & Poor's Apparel, Accessories & Luxury Goods Index; and the Dow Jones U.S. Footwear Index. The graph assumes an investment of $100 on May 31, 2015 in each of the indices and our Class B Common Stock. Each of the indices assumes that all dividends were reinvested on the day of issuance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG NIKE, INC.; S&P 500 INDEX; THE DOW JONES U.S. FOOTWEAR INDEX; AND S&P APPAREL, ACCESSORIES & LUXURY GOODS INDEX

linechart_return.jpg

The Dow Jones U.S. Footwear Index consists of NIKE, Deckers Outdoor Corporation, Skechers U.S.A., Inc., Steven Madden, Ltd. and Wolverine World Wide, Inc. Because NIKE is part of the Dow Jones U.S. Footwear Index, the price and returns of NIKE stock have a substantial effect on this index. The Standard & Poor's Apparel, Accessories & Luxury Goods Index consists of Hanesbrands Inc., PVH Corporation, Ralph Lauren Corporation, Tapestry, Inc., Under Armour, Inc. and V.F. Corporation. The Dow Jones U.S. Footwear Index and the Standard & Poor's Apparel, Accessories & Luxury Goods Index include companies in two major lines of business in which the Company competes. The indices do not encompass all of the Company's competitors, nor all product categories and lines of business in which the Company is engaged.

The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make or endorse any predictions as to future stock performance.

The performance graph above is being furnished solely to accompany this Report pursuant to Item 201(e) of Regulation S-K, is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 6. SELECTED FINANCIAL DATA

All share and per share amounts are reflective of the two-for-one stock split that began trading at the split-adjusted price on December 24, 2015.

	FINANCIAL HISTORY				
(In millions, except per share data and financial ratios)	**2020**	**2019**	**2018**	**2017**	**2016**
Year Ended May 31,					
Revenues(1)	$ 37,403	$ 39,117	$ 36,397	$ 34,350	$ 32,376
Gross profit	16,241	17,474	15,956	15,312	14,971
Gross margin(1)	43.4 %	44.7 %	43.8 %	44.6 %	46.2 %
Net income(1)(2)	2,539	4,029	1,933	4,240	3,760
Earnings per common share:(2)					
Basic	1.63	2.55	1.19	2.56	2.21
Diluted	1.60	2.49	1.17	2.51	2.16
Weighted average common shares outstanding	1,558.8	1,579.7	1,623.8	1,657.8	1,697.9
Diluted weighted average common shares outstanding	1,591.6	1,618.4	1,659.1	1,692.0	1,742.5
Cash dividends declared per common share	0.955	0.86	0.78	0.70	0.62
Cash provided (used) by operations(1)	2,485	5,903	4,955	3,846	3,399
At May 31,					
Cash and equivalents(3)	$ 8,348	$ 4,466	$ 4,249	$ 3,808	$ 3,138
Short-term investments	439	197	996	2,371	2,319
Inventories(1)	7,367	5,622	5,261	5,055	4,838
Working capital	12,272	8,659	9,094	10,587	9,667
Operating lease right-of-use assets, net(4)	3,097	—	—	—	—
Total assets(4)(5)(6)	31,342	23,717	22,536	23,259	21,379
Long-term debt(3)	9,406	3,464	3,468	3,471	1,993
Total operating lease liabilities(4)	3,358	—	—	—	—
Redeemable preferred stock	0.3	0.3	0.3	0.3	0.3
Shareholders' equity(6)	8,055	9,040	9,812	12,407	12,258
Market capitalization	153,553	120,951	114,983	87,084	92,867
Financial Ratios:					
Return on equity(2)(6)	29.7 %	42.7 %	17.4 %	34.4 %	30.1 %
Return on assets(2)(3)(4)(5)(6)	9.2 %	17.4 %	8.4 %	19.0 %	17.5 %
Inventory turns	3.3	4.0	4.0	3.8	3.8
Current ratio at May 31(3)(4)	2.5	2.1	2.5	2.9	2.8
Price/Earnings ratio at May 31(2)	61.6	31.0	61.4	21.1	25.6

(1) *Fiscal 2020 reflects the impacts of COVID-19 on our results of operations and financial condition. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.*

(2) *Fiscal 2018 reflects the impact from the enactment of the U.S. Tax Cuts and Jobs Act. Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.*

(3) *During the fourth quarter of fiscal 2020, the Company issued $6 billion of senior unsecured notes. Refer to Note 8 — Long-Term Debt in the accompanying Notes to the Consolidated Financial Statements for additional information.*

(4) *Fiscal 2020 reflects the impact from the adoption of Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for additional information.*

(5) *Fiscal 2019 reflects the impact from the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for additional information.*

(6) *Fiscal 2019 reflects the impact from the adoption of ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for additional information.*

SELECTED QUARTERLY FINANCIAL DATA

(UNAUDITED)	**1ST QUARTER**		**2ND QUARTER**		**3RD QUARTER**		**4TH QUARTER**	
(In millions, except per share data)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Revenues(1)	$ 10,660	$ 9,948	$ 10,326	$ 9,374	$ 10,104	$ 9,611	$ 6,313	$ 10,184
Gross profit	4,871	4,397	4,544	4,105	4,473	4,339	2,353	4,633
Gross margin(1)	45.7 %	44.2 %	44.0 %	43.8 %	44.3 %	45.1 %	37.3 %	45.5 %
Net income (loss)(1)	1,367	1,092	1,115	847	847	1,101	(790)	989
Earnings (loss) per common share:								
Basic	0.87	0.69	0.71	0.54	0.54	0.70	(0.51)	0.63
Diluted	0.86	0.67	0.70	0.52	0.53	0.68	(0.51)	0.62
Weighted average common shares outstanding	1,562.4	1,594.0	1,560.6	1,581.4	1,556.3	1,572.8	1,555.7	1,570.2
Diluted weighted average common shares outstanding	1,597.5	1,634.4	1,594.4	1,620.7	1,591.6	1,609.6	1,555.7	1,607.5
Cash dividends declared per common share	0.22	0.20	0.245	0.22	0.245	0.22	0.245	0.22

(1) The third and fourth quarters of fiscal 2020 reflect the impacts of COVID-19 on our results of operations and financial condition. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NIKE designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services worldwide. We are the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE-owned retail stores and through digital platforms (which we refer to collectively as our "NIKE Direct" operations), to retail accounts and to a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Our goal is to deliver value to our shareholders by building a profitable global portfolio of branded footwear, apparel, equipment and accessories businesses. Our strategy is to achieve long-term revenue growth by creating innovative, "must-have" products, building deep personal consumer connections with our brands and delivering compelling consumer experiences through digital platforms and at retail.

Since fiscal 2018, through the Consumer Direct Offense and our Triple Double strategy, we have focused on doubling the impact of innovation, increasing our speed and agility to market and growing our direct connections with consumers. In June 2020, we announced a new digitally empowered phase of the Consumer Direct Offense strategy: Consumer Direct Acceleration. This strategic acceleration will focus on three specific areas. First, creating the marketplace of the future through more premium, consistent and seamless consumer experiences that more closely align with what consumers want and need. This strategy will lead with NIKE Digital and our own stores, as well as through select strategic partners who share our marketplace vision. Second, we will align our product creation and category organizations around a new consumer construct focused on Men's, Women's and Kids'. This approach allows us to create product that better meets individual consumer needs, including more specialization of our category approach, while re-aligning and simplifying our offense to accelerate our largest growth opportunities. In particular, we'll be reinvesting in our Women's and Kids' businesses and will also simplify our operating model across the remainder of the company to optimize effectiveness. Third, we will unify investments in data and analytics, demand sensing, insight gathering, inventory management and other areas against an end-to-end technology foundation to accelerate our digital transformation. We believe this unified approach will accelerate growth and unlock more efficiency for our business, while driving speed and responsiveness as we serve consumers globally.

On July 22, 2020, management announced a series of leadership and operating model changes to streamline and speed up strategic execution. These changes are expected to lead to a net loss of jobs, resulting in pre-tax, one-time employee termination costs of approximately $200 million to $250 million, which is expected to be incurred primarily during the first half of fiscal 2021, in the form of cash expenditures. These amounts are subject to change until such time as all details are finalized.

This next phase of our Consumer Direct Offense is expected to drive sustainable growth and profitability as we accelerate NIKE to a digital-first company. We are committed to the execution of this strategy, despite the short-term adverse impacts to our business from a novel strain of coronavirus (COVID-19). As such, our long-term financial goals on average, per year, remain the same and are outlined below:

- High single-digit revenue growth;
- Gross margin expansion of as much as 50 basis points;
- Slight selling and administrative expense leverage;
- Mid-teens earnings per share growth; and
- Low-thirties percentage rate of return on invested capital.

COVID-19 UPDATE

COVID-19 was first identified in Wuhan, China in December 2019, and subsequently declared a pandemic by the World Health Organization. To date, COVID-19 has surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. As a result, COVID-19 has impacted our business globally, including through store closures, reduced operating hours and decreased retail traffic. In particular, the outbreak and preventive measures taken to help curb the spread had material adverse impacts on our operations and business results in Greater China during the third quarter of fiscal 2020, following the temporary closure of, or reduced operating hours in, approximately 75% of NIKE-owned and partner stores within the region. During the fourth quarter of fiscal 2020, our results of operations were further impacted as approximately 90% of our NIKE Brand stores across North America, EMEA and APLA, excluding Korea, were closed for approximately 8 weeks. The majority of Converse direct to consumer stores were also closed for a significant portion of the fourth quarter. Additionally, certain of our wholesale partners closed stores or reduced operating hours during the fourth quarter, resulting in lower than expected sales and a slowing of receipt of shipments of our products. The combined effect of store closures and reduced wholesale shipments caused higher than normal inventory levels at May 31, 2020, as *Inventories* grew 31% compared to the prior year. In order to manage future inventory growth and ensure a return to normalized levels we are modifying our buying plans and canceling certain pre-COVID-19 factory purchases, shifting product offer dates to meet near-term demand, as well as shifting available inventory into our digital channel and increasing digital fulfillment capacity specifically in

North America and EMEA. Additionally, we are investing in targeted promotions and markdowns to accelerate liquidation of excess inventory while continuing to protect the long-term health of our product franchises.

COVID-19 also impacted our distribution centers, our third-party manufacturing partners and other vendors, including through the effects of facility closures, reductions in operating hours, labor shortages and real time changes in operating procedures to accommodate social distancing guidelines and additional cleaning and disinfection procedures.

In response to the uncertainty of the pandemic described above, we enhanced our liquidity position during the fourth quarter through the issuance of $6 billion in senior unsecured notes, the temporary suspension of our share repurchase program and by entering into a new committed credit facility agreement, which provides for an additional $2 billion of borrowings. Refer to Liquidity and Capital Resources for additional discussion.

Throughout the third and fourth quarter of fiscal 2020, our digital commerce remained open, supported by the employees in the distribution centers. During the fourth quarter, NIKE Brand digital remained our fastest growing channel, growing 79% on a currency-neutral basis with each of our geographies growing over 50%. Beginning in mid-May, stores within our NIKE Direct operations gradually began reopening. As of July 17, 2020, over 90% of our NIKE Direct stores have reopened across the globe, with 100% open in Greater China, over 90% open in both EMEA and North America, and APLA open over 70%. As of July 17, 2020, substantially all Converse direct to consumer stores have reopened to serve consumers.

We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities, including federal, state and local public health authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, given the dynamic nature of this situation, the Company cannot reasonably estimate the impacts of COVID-19 on our future financial condition, results of operations or cash flows. However, we do expect they will have a material adverse impact on our future revenue growth as well as our overall profitability and may continue to lead to higher than normal inventory levels in various markets, revised payment terms with certain of our wholesale customers, higher sales-related reserves, factory cancellation costs and a volatile effective tax rate driven by changes in the mix of earnings across the Company's jurisdictions.

On March 27, 2020, in response to COVID-19, the United States government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The CARES Act is a relief package consisting of various stimulus measures, such as tax payment deferrals, various business incentives and makes certain technical corrections to the U.S. Tax Cuts and Jobs Act of 2017. The enactment of such legislation, while favorable, did not have a material impact on our fiscal 2020 Consolidated Financial Statements.

FISCAL 2020 OVERVIEW

Fiscal 2020 NIKE, Inc. *Revenues* declined 4% to $37.4 billion, as revenue growth of 7% for the first nine months of fiscal 2020 was more than offset by a 38% decline in the fourth quarter due to the impacts of COVID-19. The NIKE Brand, which represents over 90% of NIKE, Inc. *Revenues*, experienced a 4% decline, down 2% on a currency-neutral basis, driven by declines across nearly all geographies, partially offset by 11% currency-neutral growth in Greater China. NIKE Direct grew 8% on a currency-neutral basis driven by 49% growth in digital, with all geographies growing strong double digits, while wholesale revenues declined 7%. Revenues for Converse declined 3% and 1%, on a reported and currency-neutral basis, respectively, as revenue growth in Asia was more than offset by declines in North America, Europe and licensee markets.

Income before income taxes decreased 40% for fiscal 2020, primarily due to lower revenues and gross margin resulting from the impacts of COVID-19, as well as higher selling and administrative expense. For the first nine months of fiscal 2020, gross margin expanded 30 basis points compared to the first nine months of fiscal 2019. However, this was more than offset by a decline of 820 basis points in the fourth quarter of fiscal 2020, primarily due the impacts of COVID-19. For fiscal 2020, NIKE, Inc. gross margin decreased 130 basis points as higher full-price average selling price (ASP), on a wholesale equivalent basis, was more than offset by higher product costs due to incremental tariffs in the U.S., as well as factory cancellation charges, higher inventory obsolescence reserves and the negative rate impacts of supply chain costs on a lower volume of wholesale shipments in the fourth quarter of fiscal 2020. Selling and administrative expense increased, due to higher operating overhead expense partially offset by lower demand creation expense. Operating overhead expense increased due to higher wage-related expenses, as a result of our continued investment in end-to-end digital capabilities, and higher bad debt expense, partially offset by lower travel and related spend. Demand creation expense decreased primarily due to lower retail brand presentation costs and sports marketing expenses as sporting events were postponed or canceled and a majority of stores were closed globally during the fourth quarter of fiscal 2020. These decreases were partially offset by higher digital brand marketing costs.

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

As we continue to execute against the Consumer Direct Offense, we are focused on optimizing country operating models across our global portfolio and we remain committed to investing in our most significant growth opportunities. During the third quarter of fiscal 2020, we announced our intention to sell our NIKE Brand businesses in Brazil, Argentina, Chile and Uruguay to strategic third-party distributors in an effort to more personally serve consumers in these respective marketplaces while driving sustainable, profitable growth. These transactions are expected to close in the first half of fiscal 2021. As a result of this decision, the related assets and liabilities of these entities were classified as held-for-sale on the Consolidated Balance Sheets as of May 31, 2020. Additionally, we recognized a non-recurring impairment charge of $405 million, within *Other (income) expense, net* on the Consolidated Statements of Income, classified within Corporate. This charge was primarily due to the anticipated release of non-cash cumulative foreign currency translation losses, and could fluctuate due to changes in exchange rates up to the date of close. In future quarters, as we shift from a wholesale and direct to consumer operating model to a distributor operating model within these countries, we expect consolidated NIKE, Inc. and APLA revenue growth will be reduced due to differences in commercial terms. However, we expect the future operating model to have a favorable impact on our overall profitability as we reduce selling and administrative expenses, as well as lessen exposure to foreign exchange rate volatility.

On October 29, 2019, we signed a definitive agreement to sell the assets and liabilities of our wholly-owned subsidiary brand, Hurley. The transaction closed on December 6, 2019, and the impacts of the divestiture are not considered material to the Company.

While foreign currency markets remain volatile, in part due to geopolitical dynamics leading to a stronger U.S. Dollar, we continue to see opportunities to drive future growth and profitability. We remain committed to effectively managing our business to achieve our financial goals over the long-term by executing against the operational strategies outlined above.

For discussion related to the results of operations and changes in financial condition for fiscal 2019 compared to fiscal 2018 refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our fiscal 2019 Form 10-K, which was filed with the United States Securities and Exchange Commission on July 23, 2019.

USE OF NON-GAAP FINANCIAL MEASURES

Throughout this Annual Report on Form 10-K, we discuss non-GAAP financial measures, including references to wholesale equivalent revenues, currency-neutral revenues, as well as Total NIKE Brand earnings before interest and taxes (EBIT) and Total NIKE, Inc. EBIT, which should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). References to wholesale equivalent revenues are intended to provide context as to the total size of our NIKE Brand market footprint if we had no NIKE Direct operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our NIKE Direct operations, which are charged at prices comparable to those charged to external wholesale customers. Additionally, currency-neutral revenues are calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends excluding the impact of translation arising from foreign currency exchange rate fluctuations. EBIT is calculated as *Net Income* before *Interest expense (income), net* and *Income tax expense* in the Consolidated Statements of Income.

Management uses these non-GAAP financial measures when evaluating the Company's performance, including when making financial and operating decisions. Additionally, management believes these non-GAAP financial measures provide investors with additional financial information that should be considered when assessing our underlying business performance and trends. However, references to wholesale equivalent revenues, currency-neutral revenues and EBIT should not be considered in isolation or as a substitute for other financial measures calculated and presented in accordance with U.S. GAAP and may not be comparable to similarly titled non-GAAP measures used by other companies.

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RESULTS OF OPERATIONS

(Dollars in millions, except per share data)	FISCAL 2020	FISCAL 2019	% CHANGE	FISCAL 2018	% CHANGE
Revenues(1)	$ 37,403	$ 39,117	-4 %	$ 36,397	7 %
Cost of sales	21,162	21,643	-2 %	20,441	6 %
Gross profit	16,241	17,474	-7 %	15,956	10 %
Gross margin(1)	*43.4 %*	*44.7 %*		*43.8 %*	
Demand creation expense	3,592	3,753	-4 %	3,577	5 %
Operating overhead expense	9,534	8,949	7 %	7,934	13 %
Total selling and administrative expense	13,126	12,702	3 %	11,511	10 %
% of revenues	*35.1 %*	*32.5 %*		*31.6 %*	
Interest expense (income), net	89	49	—	54	—
Other (income) expense, net	139	(78)	—	66	—
Income before income taxes	2,887	4,801	-40 %	4,325	11 %
Income tax expense(2)	348	772	-55 %	2,392	-68 %
Effective tax rate	*12.1 %*	*16.1 %*		*55.3 %*	
NET INCOME(1)	**$ 2,539**	**$ 4,029**	**-37 %**	**$ 1,933**	**108 %**
Diluted earnings per common share	$ 1.60	$ 2.49	-36 %	$ 1.17	113 %

(1) Fiscal 2020 reflects the impacts of COVID-19 on our results of operations. Refer to discussion of our results below for additional information.

(2) Fiscal 2018 reflects the impact from the enactment of the U.S. Tax Cuts and Jobs Act. Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

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CONSOLIDATED OPERATING RESULTS

REVENUES

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)
NIKE, Inc. Revenues:							
NIKE Brand Revenues by:							
Footwear	$ 23,305	$ 24,222	-4 %	-2 %	$ 22,268	9 %	12 %
Apparel	10,953	11,550	-5 %	-3 %	10,733	8 %	11 %
Equipment	1,280	1,404	-9 %	-6 %	1,396	1 %	4 %
Global Brand Divisions(2)	30	42	-29 %	-26 %	88	-52 %	-53 %
Total NIKE Brand Revenues	**35,568**	**37,218**	**-4 %**	**-2 %**	**34,485**	**8 %**	**11 %**
Converse	1,846	1,906	-3 %	-1 %	1,886	1 %	3 %
Corporate(3)	(11)	(7)	—	—	26	—	—
TOTAL NIKE, INC. REVENUES	**$ 37,403**	**$ 39,117**	**-4 %**	**-2 %**	**$ 36,397**	**7 %**	**11 %**
Supplemental NIKE Brand Revenues Details:							
NIKE Brand Revenues by:							
Sales to Wholesale Customers	$ 23,156	$ 25,423	-9 %	-7 %	$ 23,969	6 %	10 %
Sales through NIKE Direct	12,382	11,753	5 %	8 %	10,428	13 %	16 %
Global Brand Divisions(2)	30	42	-29 %	-26 %	88	-52 %	-53 %
TOTAL NIKE BRAND REVENUES	**$ 35,568**	**$ 37,218**	**-4 %**	**-2 %**	**$ 34,485**	**8 %**	**11 %**
NIKE Brand Revenues on a Wholesale Equivalent Basis:(1)							
Sales to Wholesale Customers	$ 23,156	$ 25,423	-9 %	-7 %	$ 23,969	6 %	10 %
Sales from our Wholesale Operations to NIKE Direct Operations	7,452	7,127	5 %	7 %	6,332	13 %	16 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 30,608**	**$ 32,550**	**-6 %**	**-4 %**	**$ 30,301**	**7 %**	**11 %**
NIKE Brand Wholesale Equivalent Revenues by:(1)							
Men's	$ 16,694	$ 17,737	-6 %	-4 %	$ 16,698	6 %	10 %
Women's	6,999	7,380	-5 %	-3 %	6,913	7 %	11 %
NIKE Kids'	5,033	5,283	-5 %	-3 %	4,906	8 %	11 %
Others(4)	1,882	2,150	-12 %	-10 %	1,784	21 %	25 %
	$ 30,608	**$ 32,550**	**-6 %**	**-4 %**	**$ 30,301**	**7 %**	**11 %**

TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES							
NIKE Brand Wholesale Equivalent Revenues by:(1)							
Running	$ 3,830	$ 4,488	-15 %	-12 %	$ 4,496	0 %	4 %
NIKE Basketball	1,508	1,597	-6 %	-4 %	1,494	7 %	9 %
Jordan Brand	3,609	3,138	15 %	16 %	2,856	10 %	12 %
Football (Soccer)	1,575	1,894	-17 %	-14 %	2,146	-12 %	-6 %
Training	2,688	3,137	-14 %	-13 %	3,126	0 %	3 %
Sportswear	12,285	12,442	-1 %	1 %	10,720	16 %	21 %
Others(5)	5,113	5,854	-13 %	-10 %	5,463	7 %	9 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 30,608**	**$ 32,550**	**-6 %**	**-4 %**	**$30,301**	**7 %**	**11 %**

(1) The percent change excluding currency changes and the presentation of wholesale equivalent revenues represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.

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

(3) 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.

(4) Others include all unisex products, equipment and other products not allocated to Men's, Women's and NIKE Kids', as well as certain adjustments that are not allocated to products designated by gender or age.

(5) Others include all other categories and certain adjustments that are not allocated at the category level.

FISCAL 2020 NIKE BRAND REVENUE HIGHLIGHTS

The following tables present NIKE Brand revenues disaggregated by reportable operating segment, distribution channel and major product line:

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FISCAL 2020 COMPARED TO FISCAL 2019

On a currency-neutral basis, NIKE, Inc. *Revenues* declined 2% for fiscal 2020, driven by lower revenues in both the NIKE Brand and Converse as the first nine months of revenue growth was offset by the impacts of lower shipments to wholesale customers and store closures within our NIKE Direct and Converse direct to consumer operations due to COVID-19 in the fourth quarter. Revenues for North America declined in fiscal 2020, reducing NIKE, Inc. *Revenues* by approximately 4 percentage points, partially offset by revenue growth in Greater China contributing approximately 2 percentage points.

On a currency-neutral basis, NIKE Brand footwear revenues decreased 2% for fiscal 2020, driven by declines in nearly all key categories, primarily Running, Sportswear and Training, partially offset by growth in the Jordan Brand. Unit sales of footwear decreased 8%, partially offset by higher ASP per pair contributing approximately 6 percentage points. The increase in ASP was primarily due to higher full-price and NIKE Direct ASPs, as well as the favorable impact of growth in our NIKE Direct business.

Currency-neutral NIKE Brand apparel revenues decreased 3% for fiscal 2020, due to declines in most key categories, primarily Running, Training and Football (Soccer), partially offset by growth in Sportswear and the Jordan Brand. Unit sales of apparel decreased 8%, partially offset by higher ASP per unit contributing approximately 5 percentage points. The increase in ASP was primarily due to higher full-price ASP and the favorable impact of growth in our NIKE Direct business.

On a reported basis, NIKE Direct revenues represented approximately 35% of our total NIKE Brand revenues for fiscal 2020, compared to 32% for fiscal 2019. Digital commerce sales were $5.5 billion for fiscal 2020 compared to $3.8 billion for fiscal 2019. On a currency-neutral basis, NIKE Direct revenues increased 8% for fiscal 2020, driven by strong digital commerce sales growth of 49%, which more than offset comparable store sales contraction of 12% due to temporary store closures and stores operating on reduced hours as a result of COVID-19. Comparable store sales, which exclude digital commerce sales, comprises 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. Comparable store sales includes revenues from stores that were temporarily closed during the period as a result of COVID-19. Comparable store sales represents a performance measure that we believe is useful information for management and investors in understanding the performance of our established NIKE-owned in-line and factory stores. Management considers this metric when making financial and operating decisions. The method of calculating comparable store sales varies across the retail industry. As a result, our calculation of this metric may not be comparable to similarly titled measures used by other companies.

On a currency-neutral basis, fiscal 2020 NIKE Brand Men's and Women's revenues decreased 4% and 3%, respectively. Lower NIKE Brand Men's revenues were driven by declines in nearly all key categories, primarily Running and Training, partially offset by growth in the Jordan Brand. Lower NIKE Brand Women's revenues were driven by declines in most key categories, primarily Running and Training, partially offset by growth in Sportswear and the Jordan Brand. Revenues for our NIKE Kids' business decreased 3%, as declines primarily in Football (Soccer) more than offset growth in the Jordan Brand.

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GROSS MARGIN

FISCAL 2020 COMPARED TO FISCAL 2019

For fiscal 2020, our consolidated gross profit decreased 7% to $16,241 million compared to $17,474 million for fiscal 2019, which was significantly impacted by lower shipments to our wholesale customers and store closures within our NIKE Direct operations due to COVID-19. Gross margin decreased 130 basis points to 43.4% for fiscal 2020 compared to 44.7% for fiscal 2019 due to the following:

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**Wholesale equivalent*

Higher product costs were in part due to incremental tariffs in North America. Higher other costs, primarily in the fourth quarter of fiscal 2020 due to the impacts of COVID-19, were specifically related to increased factory cancellations costs, higher inventory obsolescence and the adverse rate impact of supply chain costs on a lower volume of wholesale shipments.

TOTAL SELLING AND ADMINISTRATIVE EXPENSE

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	FISCAL 2018	% CHANGE
Demand creation expense(1)	$ 3,592	$ 3,753	-4 %	$ 3,577	5 %
Operating overhead expense	9,534	8,949	7 %	7,934	13 %
Total selling and administrative expense	$ 13,126	$ 12,702	3 %	$ 11,511	10 %
% of revenues	35.1 %	32.5 %	260 bps	31.6 %	90 bps

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

FISCAL 2020 COMPARED TO FISCAL 2019

Demand creation expense decreased 4% for fiscal 2020 compared to fiscal 2019, due to lower retail brand presentation costs and lower sports marketing investments, as well as decreased advertising and marketing expenses as sporting events were postponed or canceled and a majority of stores were closed globally during the fourth quarter of fiscal 2020. These decreases were partially offset by higher digital brand marketing costs. Changes in foreign currency exchange rates decreased *Demand creation expense* by approximately 2 percentage points for fiscal 2020.

Operating overhead expense increased 7% for fiscal 2020 compared to fiscal 2019, driven by higher wage-related and administrative expenses to support our continued investments in end-to-end digital capabilities, including support for a new enterprise resource planning tool. *Operating overhead expense* was further impacted by higher bad debt expense recognized during the fourth quarter of fiscal 2020 due to the impacts of COVID-19. These increases were partially offset by lower travel and related spend. Changes in foreign currency exchange rates decreased *Operating overhead expense* by approximately 1 percentage points for fiscal 2020.

OTHER (INCOME) EXPENSE, NET

(Dollars in millions)	FISCAL 2020	FISCAL 2019	FISCAL 2018
Other (income) expense, net	$ 139	$ (78)	$ 66

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.

FISCAL 2020 COMPARED TO FISCAL 2019

Other (income) expense, net changed from $78 million of other income, net for fiscal 2019 to $139 million of other expense, net for fiscal 2020, primarily due to the non-recurring impairment charge of $405 million related to our planned, strategic distributor partnership transition within APLA. For more information see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements. This was offset by a $121 million net beneficial change in foreign currency conversion gains and losses, including hedges.

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 an unfavorable impact on our *Income before income taxes* of $91 million for fiscal 2020.

INCOME TAXES

	FISCAL 2020	FISCAL 2019	% CHANGE	FISCAL 2018	% CHANGE
Effective tax rate	12.1 %	16.1 %	(400) bps	55.3 %	(3,920) bps

FISCAL 2020 COMPARED TO FISCAL 2019

Our effective tax rate was 12.1% for fiscal 2020, compared to 16.1% for fiscal 2019 due to increased benefits from discrete items such as stock-based compensation.

Our effective tax rate for fiscal 2018 reflected significant changes related to the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Act"). Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information on the impact of the Tax Act.

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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands, with results for the Hurley Brand, prior to its divestiture, included in North America. Refer to Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements for additional information. The Company's NIKE Direct operations are managed within each geographic operating segment. Converse is also a reportable operating segment for the Company, and operates predominately 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 exchange rates are assigned twice per year to each NIKE Brand entity in our geographic operating segments and Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the use of these standard rates to record non-functional currency product purchases into the entity's functional currency. Differences between assigned standard foreign currency exchange 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.

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The breakdown of revenues is as follows:

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)
North America	$ 14,484	$ 15,902	-9 %	-9 %	$ 14,855	7 %	7 %
Europe, Middle East & Africa	9,347	9,812	-5 %	-1 %	9,242	6 %	11 %
Greater China	6,679	6,208	8 %	11 %	5,134	21 %	24 %
Asia Pacific & Latin America	5,028	5,254	-4 %	1 %	5,166	2 %	13 %
Global Brand Divisions(2)	30	42	-29 %	-26 %	88	-52 %	-53 %
TOTAL NIKE BRAND	**35,568**	**37,218**	**-4 %**	**-2 %**	**34,485**	**8 %**	**11 %**
Converse	1,846	1,906	-3 %	-1 %	1,886	1 %	3 %
Corporate(3)	(11)	(7)	—	—	26	—	—
TOTAL NIKE, INC. REVENUES	**$ 37,403**	**$ 39,117**	**-4 %**	**-2 %**	**$ 36,397**	**7 %**	**11 %**

(1) The percent change excluding currency changes represents a non-GAAP financial measure. See "Use of Non-GAAP Financial Measures" for further information.

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

(3) 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 primary financial measure used by the Company to evaluate performance of individual operating segments is EBIT, which represents *Net income* before *Interest expense (income), net* and *Income tax expense* in the Consolidated Statements of Income. As discussed in Note 17 — Operating Segments and Related Information in the accompanying Notes to the 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)	FISCAL 2020	FISCAL 2019	% CHANGE	FISCAL 2018	% CHANGE
North America	$ 2,899	$ 3,925	-26 %	$ 3,600	9 %
Europe, Middle East & Africa	1,541	1,995	-23 %	1,587	26 %
Greater China	2,490	2,376	5 %	1,807	31 %
Asia Pacific & Latin America	1,184	1,323	-11 %	1,189	11 %
Global Brand Divisions	(3,468)	(3,262)	-6 %	(2,658)	-23 %
TOTAL NIKE BRAND(1)	**4,646**	**6,357**	**-27 %**	**5,525**	**15 %**
Converse	297	303	-2 %	310	-2 %
Corporate	(1,967)	(1,810)	-9 %	(1,456)	-24 %
TOTAL NIKE, INC. EARNINGS BEFORE INTEREST AND TAXES(1)	**2,976**	**4,850**	**-39 %**	**4,379**	**11 %**
Interest expense (income), net	89	49	—	54	—
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 2,887**	**$ 4,801**	**-40 %**	**$ 4,325**	**11 %**

(1) Total NIKE Brand EBIT and Total NIKE, Inc. EBIT represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.

NORTH AMERICA

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 9,329	$ 10,045	-7 %	-7 %	$ 9,322	8 %	8 %
Apparel	4,639	5,260	-12 %	-12 %	4,938	7 %	7 %
Equipment	516	597	-14 %	-14 %	595	0 %	0 %
TOTAL REVENUES	**$ 14,484**	**$ 15,902**	**-9 %**	**-9 %**	**$ 14,855**	**7 %**	**7 %**
Revenues by:							
Sales to Wholesale Customers	$ 9,371	$ 10,875	-14 %	-14 %	$ 10,159	7 %	7 %
Sales through NIKE Direct	5,113	5,027	2 %	2 %	4,696	7 %	7 %
TOTAL REVENUES	**$ 14,484**	**$ 15,902**	**-9 %**	**-9 %**	**$ 14,855**	**7 %**	**7 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 2,899**	**$ 3,925**	**-26 %**		**$ 3,600**	**9 %**	

We believe there continues to be a meaningful shift in the way consumers shop for product and make purchasing decisions. Consumers are demanding a constant flow of fresh and innovative product, and have an expectation for superior service and rapid delivery, all fueled by the shift toward digital and mono-brand experiences in NIKE Direct. Specifically, in North America we anticipate continued evolution within the retail landscape, driven by shifting consumer traffic patterns across digital and physical channels. The evolution of the North America marketplace is resulting in third-party retail store closures, which is expected to be further accelerated as a result of the effects of COVID-19; however, we remain focused on building long-term momentum with our strategic wholesale customers, fueled by innovative product and NIKE Brand consumer experiences, leveraging digital.

FISCAL 2020 COMPARED TO FISCAL 2019

On a currency-neutral basis, North America revenues decreased 9%, as revenue growth for the first nine months of fiscal 2020 was offset by declines in the fourth quarter, primarily resulting from lower shipments to our wholesale customers and store closures within our NIKE Direct operations due to COVID-19. Revenues declined in nearly all key categories, primarily Running and Training. NIKE Direct revenues increased 2% for fiscal 2020 as strong digital commerce sales growth of 45% more than offset a 20% decline in comparable store sales due to temporary store closures and stores operating on reduced hours as a result of COVID-19 during the fourth quarter.

Footwear revenues contracted 7% on a currency-neutral basis for fiscal 2020, driven by declines in nearly all key categories, primarily Running, Training and Sportswear. Unit sales of footwear decreased 13%, partially offset by higher ASP per pair contributing approximately 6 percentage points. Higher ASP per pair was primarily due to higher NIKE Direct ASP and the favorable impact of growth in our NIKE Direct business, as well as higher full-price ASP.

On a currency-neutral basis, apparel revenues decreased 12% for fiscal 2020 as lower revenues in nearly all key categories, primarily Training, were partially offset by growth in Sportswear. Unit sales of apparel decreased 16%, partially offset by higher ASP per unit contributing approximately 4 percentage points. The increase in ASP per unit was primarily a result of higher full-price and NIKE Direct ASPs, as well as the favorable impact of growth in our NIKE Direct business.

Reported EBIT decreased 26% for fiscal 2020, reflecting lower revenues, gross margin contraction and higher selling and administrative expense. Gross margin declined 230 basis points as higher-full price ASP was more than offset by higher product costs, primarily due to incremental tariffs, as well as increased costs specifically in the fourth quarter due to COVID-19 for warehousing and freight, the adverse rate impact of supply chain costs on a lower volume of wholesale shipments, factory cancellations and inventory obsolescence. Selling and administrative expense grew due to higher operating overhead expense, partially offset by lower demand creation expense. Operating overhead expense increased primarily due to higher bad debt expense and higher administrative costs. The decrease in demand creation expense reflected higher digital brand marketing costs, which were more than offset by lower retail brand presentation costs and sports marketing expenses as leagues and sporting events were suspended and a majority of stores within our NIKE Direct operations were closed during the fourth quarter due to COVID-19.

EUROPE, MIDDLE EAST & AFRICA

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 5,892	$ 6,293	-6 %	-3 %	$ 5,875	7 %	12 %
Apparel	3,053	3,087	-1 %	2 %	2,940	5 %	9 %
Equipment	402	432	-7 %	-3 %	427	1 %	5 %
TOTAL REVENUES	**$ 9,347**	**$ 9,812**	**-5 %**	**-1 %**	**$ 9,242**	**6 %**	**11 %**
Revenues by:							
Sales to Wholesale Customers	$ 6,574	$ 7,076	-7 %	-4 %	$ 6,765	5 %	9 %
Sales through NIKE Direct	2,773	2,736	1 %	5 %	2,477	10 %	15 %
TOTAL REVENUES	**$ 9,347**	**$ 9,812**	**-5 %**	**-1 %**	**$ 9,242**	**6 %**	**11 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,541**	**$ 1,995**	**-23 %**		**$ 1,587**	**26 %**	

FISCAL 2020 COMPARED TO FISCAL 2019

On a currency-neutral basis, EMEA revenues for fiscal 2020 declined 1%, as revenue growth for the first nine months of fiscal 2020 was offset by declines in the fourth quarter, primarily resulting from lower shipments to our wholesale customers and store closures within our NIKE Direct operations due to COVID-19. The decline reflects lower revenues in the Northern Europe and Southern Europe territories, which each declined 8%, partially offset by growth in UK & Ireland of 5%. Revenues decreased in most key categories, primarily Football (Soccer) and Running, partially offset by growth in the Jordan Brand. NIKE Direct revenues increased 5% due to strong digital commerce sales growth of 50%, partially offset by a 15% decline in comparable store sales due to temporary store closures and stores operating on reduced hours as a result of COVID-19, as well as declines from certain store closures as we continually optimize our fleet to meet consumer demand across physical and digital channels.

Currency-neutral footwear revenues contracted 3% for fiscal 2020, driven by lower revenues in nearly all key categories, primarily Sportswear. Unit sales of footwear decreased 10%, partially offset by higher ASP per pair contributing approximately 7 percentage points. Higher ASP per pair primarily resulted from higher full-price and NIKE Direct ASPs.

For fiscal 2020, currency-neutral apparel revenues increased 2% as growth in several key categories, most notably Sportswear and the Jordan Brand, was partially offset by declines in Football (Soccer). Unit sales of apparel decreased 2%, partially offset by higher ASP per unit contributing approximately 4 percentage points. Higher ASP per unit was primarily due to higher full-price ASP.

Reported EBIT decreased 23% for fiscal 2020 due to lower revenues, gross margin contraction and higher selling and administrative expense. Gross margin declined 240 basis points as higher full-price ASP was more than offset by unfavorable changes in standard foreign currency exchange rates and higher other costs, which primarily occurred in the fourth quarter due to COVID-19 and reflected increased warehousing and freight costs, the adverse rate impact of supply chain costs on a lower volume of wholesale shipments and higher inventory obsolescence. Selling and administrative expense increased due to higher operating overhead expense, partially offset by lower demand creation expense. Growth in operating overhead expense was primarily due to higher bad debt expense. The decrease in demand creation expense was primarily driven by lower retail brand presentation costs resulting from store closures during the fourth quarter due to COVID-19.

GREATER CHINA

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 4,635	$ 4,262	9 %	12 %	$ 3,496	22 %	25 %
Apparel	1,896	1,808	5 %	8 %	1,508	20 %	23 %
Equipment	148	138	7 %	11 %	130	6 %	8 %
TOTAL REVENUES	**$ 6,679**	**$ 6,208**	**8 %**	**11 %**	**$ 5,134**	**21 %**	**24 %**
Revenues by:							
Sales to Wholesale Customers	$ 3,803	$ 3,726	2 %	6 %	$ 3,216	16 %	19 %
Sales through NIKE Direct	2,876	2,482	16 %	20 %	1,918	29 %	33 %
TOTAL REVENUES	**$ 6,679**	**$ 6,208**	**8 %**	**11 %**	**$ 5,134**	**21 %**	**24 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 2,490**	**$ 2,376**	**5 %**		**$ 1,807**	**31 %**	

FISCAL 2020 COMPARED TO FISCAL 2019

On a currency-neutral basis, Greater China revenues for fiscal 2020 increased 11%, despite temporary store closures and stores operating on reduced hours as a result of COVID-19 during the third quarter and for part of the fourth quarter. Higher revenues were driven by growth in most key categories, led by the Jordan Brand and Sportswear. NIKE Direct revenues increased 20%, driven by strong digital commerce sales growth of 49%, the addition of new stores and comparable store sales growth of 1%.

Currency-neutral footwear revenues increased 12% for fiscal 2020, driven by growth in nearly all key categories, led by the Jordan Brand and, to a lesser extent, Sportswear. Unit sales of footwear increased 10% and higher ASP per pair contributed approximately 2 percentage points of footwear revenue growth, driven by higher full-price ASP.

The currency-neutral apparel revenue growth of 8% for fiscal 2020 was fueled by higher revenues in most key categories, led by Sportswear and the Jordan Brand. Unit sales of apparel increased 8%, while ASP per unit was flat as higher off-price and full-price ASPs were offset by unfavorable full-price mix and lower NIKE Direct ASP.

Reported EBIT increased 5% for fiscal 2020, driven by higher revenues and selling and administrative expense leverage, partially offset by gross margin contraction. Gross margin decreased 170 basis points as unfavorable changes in standard foreign currency exchange rates and higher product costs more than offset higher full-price ASP. Selling and administrative expense increased due to higher operating overhead and demand creation expense. Growth in operating overhead expense was driven by higher investments within our NIKE Direct operations. Demand creation expense increased primarily due to higher retail brand presentation costs, including digital brand marketing.

ASIA PACIFIC & LATIN AMERICA

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 3,449	$ 3,622	-5 %	0 %	$ 3,575	1 %	12 %
Apparel	1,365	1,395	-2 %	3 %	1,347	4 %	15 %
Equipment	214	237	-10 %	-4 %	244	-3 %	8 %
TOTAL REVENUES	**$ 5,028**	**$ 5,254**	**-4 %**	**1 %**	**$ 5,166**	**2 %**	**13 %**
Revenues by:							
Sales to Wholesale Customers	$ 3,408	$ 3,746	-9 %	-4 %	$ 3,829	-2 %	9 %
Sales through NIKE Direct	1,620	1,508	7 %	12 %	1,337	13 %	23 %
TOTAL REVENUES	**$ 5,028**	**$ 5,254**	**-4 %**	**1 %**	**$ 5,166**	**2 %**	**13 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,184**	**$ 1,323**	**-11 %**		**$ 1,189**	**11 %**	

As discussed previously, we entered into definitive agreements to sell our NIKE Brand businesses in Brazil, Argentina, Chile and Uruguay and shift to a distributor operating model. The impacts of entering into these agreements are included within Corporate and are not reflected in the APLA operating segment results for fiscal 2020.

FISCAL 2020 COMPARED TO FISCAL 2019

On a currency-neutral basis, APLA revenues increased 1% for fiscal 2020. The increase in revenues reflected growth in the Korea and SOCO (which comprises Argentina, Uruguay and Chile) territories of 14% and 6%, respectively, partially offset by declines in Mexico of 9%. Revenues increased in several key categories, led by the Jordan Brand. NIKE Direct revenues increased 12%, fueled by strong digital commerce sales growth of 62% and the addition of new stores, partially offset by a decline in comparable store sales of 4% due to temporary store closures and stores operating on reduced hours as a result of COVID-19 during the fourth quarter.

Currency-neutral footwear revenues for fiscal 2020 were flat as growth in the Jordan Brand and NIKE Basketball was offset by declines in all other key categories, primarily Training. Unit sales of footwear decreased 12%, offset by higher ASP per pair contributing approximately 12 percentage points, driven by higher full-price and NIKE Direct ASPs, both of which in part reflect inflationary conditions in our SOCO territory.

Currency-neutral apparel revenues grew 3% for fiscal 2020, driven by higher revenues in several key categories, most notably Sportswear. Unit sales of apparel decreased 5%, which were more than offset by higher ASP per unit contributing approximately 8 percentage points, primarily driven by higher full-price and NIKE Direct ASPs, both of which in part reflect inflationary conditions in our SOCO territory.

Reported EBIT decreased 11% for fiscal 2020 reflecting lower revenues and gross margin contraction, partially offset by lower selling and administrative expense. Gross margin decreased 140 basis points as higher full-price ASP was more than offset by higher product costs, unfavorable changes in standard foreign currency exchange rates, as well as higher other costs. The increase in other costs primarily occurred in the fourth quarter due to COVID-19 and reflected increased warehousing and freight, as well as higher inventory obsolescence. Selling and administrative expense decreased as lower demand creation expense was partially offset by higher operating overhead expense. The decrease in demand creation expense was primarily due to lower sports marketing costs, advertising and marketing expenses, as well as lower retail brand presentation costs as sporting events were postponed or canceled and a majority of stores were closed during the fourth quarter due to COVID-19. The increase in operating overhead expense was primarily due to higher bad debt expense and higher wage-related costs.

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GLOBAL BRAND DIVISIONS

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues	$ 30	$ 42	-29 %	-26 %	$ 88	-52 %	-53 %
Earnings (Loss) Before Interest and Taxes	$ (3,468)	$ (3,262)	-6 %		$ (2,658)	-23 %	

Global Brand Divisions primarily represent demand creation and operating overhead expense, including product creation and design expenses that are centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology. Revenues for Global Brand Divisions are primarily attributable to NIKE Brand licensing businesses that are not part of a geographic operating segment.

FISCAL 2020 COMPARED TO FISCAL 2019

Global Brand Divisions' loss before interest and taxes increased 6% for fiscal 2020 as total selling and administrative expense increased compared to fiscal 2019, primarily due to higher operating overhead expense. The increase in operating overhead expense was primarily driven by higher wage-related and administrative costs resulting from investments in data and analytics capabilities, digital commerce platforms and our continued investment in a new enterprise resource planning tool, all of which are in an effort to accelerate our end-to-end digital transformation.

CONVERSE

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 1,642	$ 1,658	-1 %	1 %	$ 1,611	3 %	5 %
Apparel	89	$ 118	-25 %	-22 %	$ 144	-18 %	-17 %
Equipment	25	24	4 %	8 %	28	-14 %	-13 %
Other(1)	90	106	-15 %	-14 %	103	3 %	4 %
TOTAL REVENUES	**$ 1,846**	**$ 1,906**	**-3 %**	**-1 %**	**$ 1,886**	**1 %**	**3 %**
Revenues by:							
Sales to Wholesale Customers	$ 1,154	$ 1,247	-7 %	-5 %	$ 1,310	-5 %	2 %
Sales through Direct to Consumer	602	553	9 %	11 %	473	17 %	5 %
Other(1)	90	106	-15 %	-14 %	103	3 %	4 %
TOTAL REVENUES	**$ 1,846**	**$ 1,906**	**-3 %**	**-1 %**	**$ 1,886**	**1 %**	**3 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 297**	**$ 303**	**-2 %**		**$ 310**	**-2 %**	

(1) Other revenues consist of territories serviced by third-party licensees who pay royalties to Converse for the use of its registered trademarks and other intellectual property rights. We do not own the Converse trademarks in Japan and accordingly do not earn revenues in Japan.

FISCAL 2020 COMPARED TO FISCAL 2019

On a currency-neutral basis, Converse revenues decreased 1% for fiscal 2020, as revenue growth for the first nine months of fiscal 2020 was offset by declines in the fourth quarter, primarily resulting from lower shipments to our wholesale customers and store closures in our direct to consumer operations due to COVID-19. Revenue declines in North America and Europe, as well as in licensee markets were partially offset by increases in Asia. Wholesale revenues decreased 5% while direct to consumer revenues increased 11%, as strong digital sales growth across all geographies more than offset declines from Converse owned store closures due to COVID-19. Combined unit sales within the wholesale and direct to consumer channels decreased 6%, while ASP grew 6% primarily due to the favorable impact on ASP of growth in the direct to consumer channel and growth within the Asia geography.

Reported EBIT decreased 2%, primarily driven by declines in revenues, partially offset by gross margin expansion and lower selling and administrative expenses. Gross margin increased 60 basis points driven by higher full-price ASP, in part due to growth in our higher margin Asia geography, as well as higher ASP in our direct to consumer channel, primarily through digital, both of which were only partially offset by unfavorable changes in standard foreign currency exchange rates. Selling and administrative expense decreased primarily due to decreases in demand creation expense, as operating overhead expense was flat. Demand creation expense decreased as a result of lower advertising and marketing in response to COVID-19. Operating overhead expense was flat for fiscal 2020, as decreases in wage-related costs, travel and other discretionary expenses were offset by increased bad debt expense recognized in the fourth quarter.

CORPORATE

(Dollars in millions)	FISCAL 2020	FISCAL 2019	% CHANGE	FISCAL 2018	% CHANGE
Revenues	$ (11)	$ (7)	—	$ 26	—
Earnings (Loss) Before Interest and Taxes	$ (1,967)	$ (1,810)	-9 %	$ (1,456)	-24 %

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 primarily consists 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 exchange 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.

For fiscal 2020, Corporate includes the non-recurring impairment charge recognized as a result of our decision to transition our NIKE Brand business operations in Brazil, Argentina, Chile and Uruguay to third-party distributors. This charge primarily reflects the anticipated release of associated non-cash cumulative foreign currency translation losses.

FISCAL 2020 COMPARED TO FISCAL 2019

The Corporate loss before interest and taxes increased $157 million primarily due to the following:

- an unfavorable change of $494 million, primarily due to the $405 million non-recurring impairment charge discussed above. For more information see Note 20 — Acquisitions and Divestitures within the accompanying Notes to the Consolidated Financial Statements;
- a favorable change of $213 million 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; and
- a favorable change in net foreign currency gains and losses of $124 million 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.

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 material to NIKE, Inc. We manage these exposures by taking advantage of natural offsets and currency correlations existing 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 existing 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 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.

Refer to Note 6 — Fair Value Measurements and Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional description of outstanding derivatives at each reported period end.

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:

     a. Certain NIKE entities purchase product from the NTC, a wholly-owned sourcing hub that buys NIKE branded products from 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. NTC sales to a NIKE entity with a different functional currency results in 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 inventory costs 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 14 — Risk Management and Derivatives in the accompanying Notes to the 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 reduces 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 NIKE Brand and Converse revenues associated with European operations 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 entered into contractual agreements which have payments indexed to foreign currencies that create embedded derivative contracts recorded at fair value through *Other (income) expense, net*. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the 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, except for hedges of the embedded derivative components of the product cost exposures and other contractual agreements.

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. Accordingly, changes in fair value of these instruments are 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.

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 (loss)* within *Shareholders' equity*. In the translation of our 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 $867 million, a detriment of approximately $1,236 million, and a benefit of approximately $832 million for the years ended May 31, 2020, 2019 and 2018, respectively. The impact of foreign exchange rate fluctuations on the translation of our *Income before income taxes* was a detriment of approximately $212 million, a detriment of approximately $233 million, and a benefit of approximately $177 million for the years ended May 31, 2020, 2019 and 2018, respectively.

Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Management has concluded our Argentina subsidiary within our APLA operating segment is operating in a hyper-inflationary market. As a result, beginning in the second quarter of fiscal 2019, the functional currency of our Argentina subsidiary changed from the local currency to the U.S. Dollar. As of and for the period ended May 31, 2020, this change did not have a material impact on our results of operations or financial condition and we do not anticipate it will have a material impact in future periods based on current rates.

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 U.S. GAAP. 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 the purchase of U.S. Dollar denominated available-for-sale investments are accounted for as cash flow hedges.

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 $91 million, $97 million, and $110 million on our *Income before income taxes* for the years ended May 31, 2020, 2019 and 2018, 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 as net investment hedges in accordance with U.S. GAAP. There were no outstanding net investment hedges as of May 31, 2020 and 2019. There were no cash flows from net investment hedge settlements for the years ended May 31, 2020, 2019 and 2018.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITY

Cash provided (used) by operations was an inflow of $2,485 million for fiscal 2020 compared to $5,903 million for fiscal 2019. *Net income*, adjusted for non-cash items, generated $3,730 million of operating cash inflow for fiscal 2020 compared to $5,341 million for fiscal 2019. The decrease primarily reflects lower *Net Income*, resulting from the unfavorable impacts of COVID-19. The net change in working capital and other assets and liabilities resulted in a decrease to *Cash provided (used) by operations* of $1,245 million for fiscal 2020, compared to an increase of $562 million for fiscal 2019. The net change in working capital was impacted by a $1,364 million increase in *Inventories*, in part reflecting lower shipments to our wholesale customers and store closures within our NIKE Direct operations, as well as a decrease in *Accounts Payabl*e resulting from lower spending, both of which are due to COVID-19. The net change in working capital was also unfavorably impacted by the net change in cash collateral with derivative counterparties as a result of hedging transactions. During fiscal 2020, cash collateral received from counterparties decreased $289 million compared to an increase of $266 million in fiscal 2019. Refer to the Credit Risk section of Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional details. In addition, the net change in working capital was impacted by a $1,509 million reduction in *Accounts receivable, net*, in fiscal 2020, primarily driven by lower revenues in the fourth quarter of fiscal 2020 due to the impacts of COVID-19.

Cash provided (used) by investing activities was an outflow of $1,028 million for fiscal 2020, compared to an outflow of $264 million for fiscal 2019, driven primarily by lower proceeds from the net change in short-term investments. During fiscal 2020, the net change in investments (including sales, maturities and purchases) resulted in a cash inflow of $27 million compared to $850 million in fiscal 2019. Additionally, during fiscal 2020, we continued investing in our infrastructure to support future growth, specifically focused around digital capabilities, our end-to-end technology foundation, our corporate facilities and improvements across our supply chain. We expect this trend to continue in future periods.

Cash provided (used) by financing activities was an inflow of $2,491 million for fiscal 2020 compared to an outflow of $5,293 million for fiscal 2019, primarily due to the net proceeds from a $5,942 million corporate bond issuance in the fourth quarter of fiscal 2020, as well as lower share repurchases during fiscal 2020.

In fiscal 2020, we purchased 33.5 million shares of NIKE's Class B Common Stock for $3,033 million (an average price of $90.49 per share) under the four-year, $15 billion share repurchase program approved by the Board of Directors in June 2018. As of May 31, 2020, we had repurchased 45.2 million shares at a cost of $4,019 million (an average price of $89.00 per share) under this new program. We continue to expect funding of share repurchases will come from operating cash flows, excess cash and/or proceeds from debt. To enhance our liquidity position in response to COVID-19, during the fourth quarter of fiscal 2020, we elected to temporarily suspend share repurchases under our existing share repurchase program. The existing program remains authorized by the Board of Directors and we may resume share repurchases in the future at any time, depending upon market conditions, our capital needs and other factors.

CAPITAL RESOURCES

On July 23, 2019, we filed a shelf registration statement (the “Shelf”) with the U.S. Securities and Exchange Commission (SEC) which permits us to issue an unlimited amount of debt securities from time to time. The Shelf expires on July 23, 2022. On March 27, 2020 we issued $6 billion of senior unsecured notes with tranches maturing March 27, 2025, March 27, 2027, March 27, 2030, March 27, 2040 and March 27, 2050. For additional information regarding our long-term debt refer to Note 8 — Long-Term Debt in the accompanying Notes to the Consolidated Financial Statements.

On August 16, 2019, we entered into a committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings, with the option to increase borrowings up to $3 billion in total upon lender approval. The facility matures on August 16, 2024, with a one-year extension option prior to any anniversary of the closing date, provided that in no event shall it extend beyond August 16, 2026. This facility replaces the prior $2 billion credit facility agreement entered into on August 28, 2015, which would have matured August 28, 2020. On April 6, 2020, we entered into a committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings, in addition to the existing credit facility discussed above. The new facility matures on April 5, 2021. As of May 31, 2020 and 2019, no amounts were outstanding under our committed credit facilities.

We currently have long-term debt ratings of AA- and A1 from Standard and Poor's Corporation and Moody's Investor Services, respectively. As it relates to our committed credit facility entered into on August 16, 2019, if our long-term debt ratings were to decline, the facility fee and interest rate would increase. Conversely, if our long-term debt ratings were to improve, the facility fee and interest rate would decrease. Under the committed credit facility entered into on April 6, 2020, if our long-term debt ratings were to decline, only the interest rate would increase, but would remain unchanged in the event our long-term debt rating were to improve. Changes in our long-term debt ratings would not trigger acceleration of maturity of any then-outstanding borrowings or any future borrowings under the committed credit facilities. Under these facilities, we have agreed to various covenants. These covenants include limits on our disposal of assets and the amount of debt secured by liens we may incur. In the event we were to have any borrowings outstanding under these facilities, 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 May 31, 2020, 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 $4 billion commercial paper program, which we increased by $2 billion during the fourth quarter of fiscal 2020. During the fiscal year ended May 31, 2020, the maximum amount of commercial paper borrowings outstanding at any point was $1,456 million. As of May 31, 2020, we had $248 million of commercial paper outstanding at a weighted average interest rate of 1.65%. No commercial paper was outstanding as of May 31, 2019.

We may continue to issue commercial paper or other debt securities 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.

To date, in fiscal 2020, we have not experienced difficulty accessing the credit markets; however, future volatility in the capital markets may increase costs associated with issuing commercial paper or other debt instruments or affect our ability to access those markets.

As of May 31, 2020, we had cash, cash equivalents and short-term investments totaling $8.8 billion, primarily consisting of commercial paper, corporate notes, deposits held at major banks, money market funds, U.S. government sponsored enterprise obligations, U.S. Treasury 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 May 31, 2020, the weighted-average days to maturity of our cash equivalents and short-term investments portfolio was 14 days.

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 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 determine to repatriate indefinitely reinvested foreign funds or raise capital in the United States through debt. Given our existing structure, if we were to repatriate indefinitely reinvested foreign earnings, we would be required to accrue and pay withholding taxes in certain foreign jurisdictions.

OFF-BALANCE SHEET ARRANGEMENTS

In connection with various contracts and agreements, we routinely provide indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where we are acting as the guarantor. Currently, we have several such agreements in place. Based on our historical experience and the estimated probability of future loss, we have determined that the fair value of such indemnification is not material to our financial position or results of operations.

CONTRACTUAL OBLIGATIONS

Our significant long-term contractual obligations as of May 31, 2020, and significant endorsement contracts, including related marketing commitments, entered into through the date of this report are as follows:

DESCRIPTION OF COMMITMENT	**CASH PAYMENTS DUE DURING THE YEAR ENDING MAY 31,**						
(Dollars in millions)	**2021**	**2022**	**2023**	**2024**	**2025**	**THEREAFTER**	**TOTAL**
Operating Leases	$ 550	$ 514	$ 456	$ 416	$ 374	$ 1,474	$ 3,784
Long-Term Debt(1)	289	286	786	275	1,275	11,541	14,452
Endorsement Contracts(2)	1,330	1,471	1,178	1,064	1,135	3,164	9,342
Product Purchase Obligations(3)	4,234	—	—	—	—	—	4,234
Other Purchase Obligations(4)	1,085	345	189	136	127	345	2,227

Transition Tax Related to the Tax Act(5)	86	86	86	161	215	268	902
TOTAL	**$ 7,574**	**$ 2,702**	**$ 2,695**	**$ 2,052**	**$ 3,126**	**$ 16,792**	**$ 34,941**

(1) The cash payments due for long-term debt include estimated interest payments. Estimates of interest payments are based on outstanding principal amounts, applicable fixed interest rates or currently effective interest rates as of May 31, 2020 (if variable), timing of scheduled payments and the term of the debt obligations.

(2) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, public figure, 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.

(3) We generally order product at least four to five months in advance of sale based primarily on advanced orders received from external wholesale customers and internal orders from our direct to consumer operations. The amounts listed for product purchase obligations represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and specify all significant terms. In some cases, prices are subject to change throughout the production process.

(4) Other purchase obligations primarily include construction, service and marketing commitments, including marketing commitments associated with endorsement contracts, made in the ordinary course of business. The amounts represent the minimum payments required by legally binding contracts and agreements that specify all significant terms, and may include open purchase orders for non-product purchases.

(5) Represents the future cash payments due as part of the transition tax on deemed repatriation of undistributed earnings of foreign subsidiaries, which is reflected net of foreign tax credits we utilized. Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

In addition to the above, we have long-term obligations for uncertain tax positions and various post-retirement benefits for which we are not able to reasonably estimate when cash payments will occur. Refer to Note 9 — Income Taxes and Note 13 — Benefit Plans in the accompanying Notes to the Consolidated Financial Statements for further information related to uncertain tax positions and post-retirement benefits, respectively.

We also have the following outstanding short-term debt obligations as of May 31, 2020. Refer to Note 7 — Short-Term Borrowings and Credit Lines in the accompanying Notes to the Consolidated Financial Statements for further description and interest rates related to the short-term debt obligations listed below.

(Dollars in millions)	**AS OF MAY 31, 2020**
Notes payable, due at mutually agreed-upon dates within one year of issuance or on demand	$ 248

As of May 31, 2020, we had bank guarantees and letters of credit outstanding totaling $239 million, issued primarily for real estate agreements, self-insurance programs and other general business obligations.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for recently adopted accounting standards.

CRITICAL ACCOUNTING POLICIES

Our previous discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

We believe the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our Consolidated Financial Statements, so we consider these to be our critical accounting policies and estimates. Management has reviewed and discussed these critical accounting policies with the Audit & Finance Committee of the Board of Directors.

These policies require that we make estimates in the preparation of our Consolidated Financial Statements as of a given date. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

REVENUE RECOGNITION

On June 1, 2018, we adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method of adoption. Prior to fiscal 2019, amounts have not been restated and continue to be reported in accordance with our historical accounting policies. Our revenue recognition policies under Topic 606 are described in the following paragraphs and references to prior period policies under Accounting Standard Codification Topic 605 — *Revenue Recognition,* are included below in the event they are substantially different.

Revenue transactions associated with the sale of NIKE Brand footwear, apparel and equipment, as well as Converse products, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. We satisfy the performance obligation and record revenues when transfer of control has passed to the customer, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product. Transfer of control passes to wholesale customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. Control passes to retail store customers at the time of sale and to substantially all digital commerce customers upon shipment. Prior to fiscal 2019, the requirements for recognizing revenue were met upon delivery to the customer. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers. Payment terms for wholesale transactions depend on the country of sale or agreement with the customer and payment is generally required within 90 days or less of shipment to or receipt by the wholesale customer. Payment is due at the time of sale for retail store and digital commerce transactions.

As part of our revenue recognition policy, consideration promised in our contracts with customers is variable due to anticipated reductions such as sales returns, discounts and miscellaneous claims from customers. We estimate the most likely amount we will be entitled to receive and record an anticipated reduction against *Revenues,* with an offsetting increase to *Accrued liabilities* at the time revenues are recognized. The estimated cost of inventory for product returns is recorded in *Prepaid expenses and other current assets* on the Consolidated Balance Sheets. Prior to fiscal 2019, reserve balances were reported net of the estimated cost of inventory for product returns and recognized within *Accounts receivable, ne*t for wholesale transactions and *Accrued liabilities* for our direct to consumer business, on the Consolidated Balance Sheets.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly different than reserves established, a reduction or increase to net revenues would be recorded in the period in which such determination was made.

Refer also to Note 1 — Summary of Significant Accounting Policies and Note 16 — Revenues for additional information in the accompanying Notes to the Consolidated Financial Statements.

INVENTORY RESERVES

We make ongoing estimates relating to the net realizable value of inventories based upon our assumptions about future demand and market conditions. If we estimate the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated net realizable value. This reserve is recorded as a charge to *Cost of sales*. If changes in market conditions result in reductions to the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination.

CONTINGENT PAYMENTS UNDER ENDORSEMENT CONTRACTS

A significant amount of our *Demand creation expense* relates to payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g., winning a championship). We record demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When we determine payments are probable, the amounts are reported in *Demand creation expense* ratably over the contract period based on our best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from our estimate due to changes in the endorser's performance, adjustments to *Demand creation expense* may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which we record in *Cost of sales* as the related sales occur. For contracts containing minimum guaranteed royalty payments, we

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record the amount of any guaranteed payment in excess of that earned through sales of product within *Demand creation expense*.

PROPERTY, PLANT AND EQUIPMENT AND DEFINITE-LIVED ASSETS

We review the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies that would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

HEDGE ACCOUNTING FOR DERIVATIVES

We use derivative contracts to hedge certain anticipated foreign currency and interest rate transactions as well as certain non-functional currency monetary assets and liabilities. When the specific criteria to qualify for hedge accounting has been met, changes in the fair value of contracts hedging probable forecasted future cash flows are recorded in *Accumulated other comprehensive income (loss)*, rather than *Net income*, until the underlying hedged transaction affects *Net income*. In most cases, this results in gains and losses on hedge derivatives being released from *Accumulated other comprehensive income (loss)* into *Net income* sometime after the maturity of the derivative. One of the criteria for this accounting treatment is that the notional value of these derivative contracts should not be in excess of the designated amount of anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When the designated amount of anticipated or actual transactions decline below hedged levels, or if it is no longer probable a forecasted transaction will occur by the end of the originally specified time period or within an additional two-month period of time thereafter, we are required to reclassify the cumulative change in fair value of the over-hedged portion of the related hedge contract from *Accumulated other comprehensive income (loss)* to *Other (income) expense, net* during the quarter in which the decrease occurs. In rare circumstances, the additional period of time may exceed two months due to extenuating circumstances related to the nature of the forecasted transaction that are outside our control or influence.

INCOME TAXES

We are subject to taxation in the United States, as well as various state and foreign jurisdictions. The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. On an interim basis, we estimate our effective tax rate for the full fiscal year. This estimated annual effective tax rate is then applied to the year-to-date *Income before income taxes* excluding infrequently occurring or unusual items, to determine the year-to-date *Income tax expense*. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs.

We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets (such as net operating loss carry-forwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our net deferred tax asset, which increases our *Income tax expense* in the period when such determination is made.

We have not recorded withholding tax expense for foreign earnings we have determined to be indefinitely reinvested within certain of our foreign jurisdictions. The amount of earnings indefinitely reinvested offshore is due to the actual deployment of such earnings in our offshore operations and our expectations of the future cash needs of our U.S. and foreign entities.

Withholding tax consequences are also a factor in determining the amount of foreign earnings to be indefinitely reinvested offshore.

We carefully review all factors that drive the ultimate disposition of foreign earnings determined to be reinvested offshore and apply stringent standards to overcome the presumption of repatriation. Despite this approach, because the determination is based on expected working capital and other capital needs in jurisdictions where the earnings are generated, the possibility exists that foreign earnings declared as indefinitely reinvested may be repatriated. For instance, the actual cash needs of our U.S. operations may exceed our current expectations, or the actual cash needs of our foreign entities may be less than our current expectations. This would result in additional withholding tax expense in the year we determined amounts were no longer indefinitely reinvested offshore.

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On a quarterly basis, we evaluate the probability a tax position will be effectively sustained and the appropriateness of the amount recognized for uncertain tax positions based on factors including changes in facts or circumstances, changes in tax law, settled audit issues and new audit activity. Changes in our assessment may result in the recognition of a tax benefit or an additional charge to the tax provision in the period our assessment changes. We recognize interest and penalties related to income tax matters in *Income tax expense*.

On December 22, 2017, the United States enacted the Tax Act, which significantly changed previous U.S. tax laws, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings, and a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, among other changes. The Tax Act also transitions U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which has the effect of subjecting certain earnings of our foreign subsidiaries to U.S. taxation. Certain provisions of the Tax Act, including a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries, were not effective for the Company until fiscal 2019. In accordance with U.S. GAAP, the Company has made an accounting policy election to treat taxes due under the GILTI provision as a current period expense.

Implementation of the Tax Act required us to record incremental provisional tax expense in fiscal 2018, which increased our effective tax rate in fiscal 2018. We completed our analysis of the Tax Act in the second quarter of fiscal 2019 and no adjustments were made to the provisional amounts recorded.

Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

OTHER CONTINGENCIES

In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. If future adjustments to estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred. In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility the ultimate loss will materially exceed the recorded liability. While we cannot predict the outcome of pending legal matters with certainty, we do not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on our results of operations, financial position or cash flows.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business and consistent with established policies and procedures, we employ a variety of financial instruments to manage exposure to fluctuations in the value of foreign currencies and interest rates. It is our policy to utilize these financial instruments only where necessary to finance our business and manage such exposures; we do not enter into these transactions for trading or speculative purposes.

We are exposed to foreign currency fluctuations, primarily as a result of our international sales, product sourcing and funding activities. 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 use forward and option contracts to hedge certain anticipated, but not yet firmly committed, transactions as well as certain firm commitments and the related receivables and payables, including third-party and intercompany transactions. We have, in the past, and may in the future, also use forward or options contracts to hedge our investment in the net assets of certain international subsidiaries to offset foreign currency translation adjustments related to our net investment in those subsidiaries. Where exposures are hedged, our program has the effect of delaying the impact of exchange rate movements on our Consolidated Financial Statements.

The timing for hedging exposures, as well as the type and duration of the hedge instruments employed, are guided by our hedging policies and determined based upon the nature of the exposure and prevailing market conditions. 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 majority of derivatives outstanding as of May 31, 2020 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Japanese Yen/U.S. Dollar and Chinese Yuan/U.S. Dollar currency pairs. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional information.

Our earnings are also exposed to movements in short- and long-term market interest rates. Our objective in managing this interest rate exposure is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve these objectives, we maintain a mix of commercial paper, bank loans, and fixed-rate debt of varying maturities.

MARKET RISK MEASUREMENT

We monitor foreign exchange risk, interest rate risk and related derivatives using a variety of techniques including a review of market value, sensitivity analysis and Value-at-Risk ("VaR"). Our market-sensitive derivative and other financial instruments are foreign currency forward contracts, foreign currency option contracts, intercompany loans denominated in non-functional currencies, fixed interest rate U.S. Dollar denominated debt and fixed interest rate Japanese Yen denominated debt.

We use VaR to monitor the foreign exchange risk of our foreign currency forward and foreign currency option derivative instruments only. The VaR determines the maximum potential one-day loss in the fair value of these foreign exchange rate-sensitive financial instruments. The VaR model estimates assume normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the VaR computation. Our computations are based on interrelationships between currencies and interest rates (a "variance/co-variance" technique). These interrelationships are a function of foreign exchange currency market changes and interest rate changes over the preceding one-year period. The value of foreign currency options does not change on a one-to-one basis with changes in the underlying currency rate. We adjust the potential loss in option value for the estimated sensitivity (the "delta" and "gamma") to changes in the underlying currency rate. This calculation reflects the impact of foreign currency rate fluctuations on the derivative instruments only and does not include the impact of such rate fluctuations on non-functional currency transactions (such as anticipated transactions, firm commitments, cash balances and accounts and loans receivable and payable), including those which are hedged by these instruments.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value we will incur nor does it consider the potential effect of favorable changes in market rates. It also does not represent the full extent of the possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in fair value on our foreign currency sensitive derivative financial instruments, derived using the VaR model, was $48 million and $34 million at May 31, 2020 and 2019, respectively. The VaR increased year-over-year as a result of an increase in foreign currency volatilities at May 31, 2020. Such a hypothetical loss in the fair value of our derivatives would be offset by increases in the value of the underlying transactions being hedged. The average monthly change in the fair values of foreign currency forward and foreign currency option derivative instruments was $126 million and $83 million during fiscal 2020 and fiscal 2019, respectively.

The instruments not included in the VaR are intercompany loans denominated in non-functional currencies, fixed interest rate Japanese Yen denominated debt, and fixed interest rate U.S. Dollar denominated debt. Intercompany loans and related interest amounts are eliminated in consolidation. Furthermore, our non-functional currency intercompany loans are substantially hedged against foreign exchange risk through the use of forward contracts, which are included in the VaR calculation above. Therefore, we consider the interest rate and foreign currency market risks associated with our non-functional currency intercompany loans to be immaterial to our consolidated financial position, results of operations and cash flows.

Details of third-party debt are provided in the table below. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

	EXPECTED MATURITY DATE YEAR ENDING MAY 31,							
(Dollars in millions)	**2021**	**2022**	**2023**	**2024**	**2025**	**THEREAFTER**	**TOTAL**	**FAIR VALUE**
Foreign Exchange Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$ 3	$ —	$ —	$ —	$ —	$ —	$ 3	$ 3
Average interest rate	2.4 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	2.4 %	
Interest Rate Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$ 3	$ —	$ —	$ —	$ —	$ —	$ 3	$ 3
Average interest rate	2.4 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	2.4 %	
U.S. Dollar Functional Currency								
Long-term U.S. Dollar debt — Fixed rate								
Principal payments	$ —	$ —	$ 500	$ —	$ 1,000	$ 8,000	$ 9,500	$ 10,642
Average interest rate	0.0 %	0.0 %	2.3 %	0.0 %	2.4 %	3.1 %	3.0 %	

The fixed interest rate Japanese Yen denominated debt instruments were issued by and are accounted for by one of our Japanese subsidiaries. Accordingly, the monthly translation of these instruments, which varies due to changes in foreign exchange rates, is recognized in *Accumulated other comprehensive income (loss)* upon consolidation of this subsidiary.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management of NIKE, Inc. is responsible for the information and representations contained in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include certain amounts based on our best estimates and judgments. Other financial information in this report is consistent with these financial statements.

Our accounting systems include controls designed to reasonably assure assets are safeguarded from unauthorized use or disposition and provide for the preparation of financial statements in conformity with U.S. GAAP. These systems are supplemented by the selection and training of qualified financial personnel and an organizational structure providing for appropriate segregation of duties.

An internal corporate audit department reviews the results of its work with the Audit & Finance Committee of the Board of Directors, presently comprised of three outside, independent directors. The Audit & Finance Committee is responsible for the appointment of the independent registered public accounting firm and reviews, with the independent registered public accounting firm, management and the internal corporate audit staff, the scope and the results of the annual audit, the effectiveness of the accounting control system and other matters relating to the financial affairs of NIKE as the Audit & Finance Committee deems appropriate. The independent registered public accounting firm and the internal corporate auditors have full access to the Audit & Finance Committee, with and without the presence of management, to discuss any appropriate matters.

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a) - 15(f) and Rule 15(d) - 15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets of the Company that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of May 31, 2020.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited (1) the Consolidated Financial Statements and (2) the effectiveness of our internal control over financial reporting as of May 31, 2020, as stated in their report herein.

John J. Donahoe II	**Matthew Friend**
President and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NIKE, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NIKE, Inc. and its subsidiaries (the "Company") as of May 31, 2020 and 2019, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended May 31, 2020, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of May 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of June 1, 2019 and the manner in which it accounts for revenue from contracts with customers and the manner in which it accounts for income taxes related to intra-entity transfers other than inventory as of June 1, 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for Income Taxes

As described in Note 9 to the consolidated financial statements, the Company recorded income tax expense of $348 million for the year ended May 31, 2020, and has net deferred tax assets of $732 million, including a valuation allowance of $26 million, and total gross unrecognized tax benefits, excluding related interest and penalties, of $771 million as of May 31, 2020, $536 million of which would affect the Company's effective tax rate if recognized in future periods. The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. As disclosed by management, the use of significant judgment and estimates, as well as the interpretation and application of complex tax laws is required by management to determine its provision for income taxes.

The principal considerations for our determination that performing procedures relating to the accounting for income taxes is a critical audit matter are the significant judgment by management when assessing complex tax laws and regulations, including new temporary regulations and recent court rulings, as it relates to determining the provision for income taxes and other tax positions. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the provision for income taxes and other tax positions. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the provision for income taxes and other tax positions. These procedures also included, among others, evaluating the effect on the Company's tax provision of changes in its legal entity structure and tax laws, testing management's tax calculations and considering the Company's compliance with tax laws. We also used professionals with specialized skill and knowledge to assist in evaluating the application of relevant tax laws, the provision for income taxes and the reasonableness of management's assessments of whether certain tax positions are more-likely-than-not of being sustained.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 24, 2020

We have served as the Company's auditor since 1974.

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NIKE, INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED MAY 31,		
(In millions, except per share data)	**2020**	**2019**	**2018**
Revenues	$ 37,403	$ 39,117	$ 36,397
Cost of sales	21,162	21,643	20,441
Gross profit	16,241	17,474	15,956
Demand creation expense	3,592	3,753	3,577
Operating overhead expense	9,534	8,949	7,934
Total selling and administrative expense	13,126	12,702	11,511
Interest expense (income), net	89	49	54
Other (income) expense, net	139	(78)	66
Income before income taxes	2,887	4,801	4,325
Income tax expense	348	772	2,392
NET INCOME	**$ 2,539**	**$ 4,029**	**$ 1,933**
Earnings per common share:			
Basic	$ 1.63	$ 2.55	$ 1.19
Diluted	$ 1.60	$ 2.49	$ 1.17
Weighted average common shares outstanding:			
Basic	1,558.8	1,579.7	1,623.8
Diluted	1,591.6	1,618.4	1,659.1

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

NIKE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Net income	$ 2,539	$ 4,029	$ 1,933
Other comprehensive income (loss), net of tax:			
Change in net foreign currency translation adjustment	(148)	(173)	(6)
Change in net gains (losses) on cash flow hedges	(130)	503	76
Change in net gains (losses) on other	(9)	(7)	34
Total other comprehensive income (loss), net of tax	(287)	323	104
TOTAL COMPREHENSIVE INCOME	**$ 2,252**	**$ 4,352**	**$ 2,037**

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

NIKE, INC.

CONSOLIDATED BALANCE SHEETS

(In millions)	MAY 31, 2020	MAY 31, 2019
ASSETS		
Current assets:		
Cash and equivalents	$ 8,348	$ 4,466
Short-term investments	439	197
Accounts receivable, net	2,749	4,272
Inventories	7,367	5,622
Prepaid expenses and other current assets	1,653	1,968
Total current assets	20,556	16,525
Property, plant and equipment, net	4,866	4,744
Operating lease right-of-use assets, net	3,097	—
Identifiable intangible assets, net	274	283
Goodwill	223	154
Deferred income taxes and other assets	2,326	2,011
TOTAL ASSETS	**$ 31,342**	**$ 23,717**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 3	$ 6
Notes payable	248	9
Accounts payable	2,248	2,612
Current portion of operating lease liabilities	445	—
Accrued liabilities	5,184	5,010
Income taxes payable	156	229
Total current liabilities	8,284	7,866
Long-term debt	9,406	3,464
Operating lease liabilities	2,913	—
Deferred income taxes and other liabilities	2,684	3,347
Commitments and contingencies (Note 18)		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 315 and 315 shares outstanding	—	—
Class B — 1,243 and 1,253 shares outstanding	3	3
Capital in excess of stated value	8,299	7,163
Accumulated other comprehensive income (loss)	(56)	231
Retained earnings (deficit)	(191)	1,643
Total shareholders' equity	8,055	9,040
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 31,342**	**$ 23,717**

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

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NIKE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Cash provided (used) by operations:			
Net income	$ 2,539	$ 4,029	$ 1,933
Adjustments to reconcile net income to net cash provided (used) by operations:			
Depreciation	721	705	747
Deferred income taxes	(380)	34	647
Stock-based compensation	429	325	218
Amortization, impairment and other	398	15	27
Net foreign currency adjustments	23	233	(99)
Changes in certain working capital components and other assets and liabilities:			
(Increase) decrease in accounts receivable	1,239	(270)	187
(Increase) decrease in inventories	(1,854)	(490)	(255)
(Increase) decrease in prepaid expenses, operating lease right-of-use assets and other current and non-current assets	(654)	(203)	35
Increase (decrease) in accounts payable, accrued liabilities, operating lease liabilities and other current and non-current liabilities	24	1,525	1,515
Cash provided (used) by operations	2,485	5,903	4,955
Cash provided (used) by investing activities:			
Purchases of short-term investments	(2,426)	(2,937)	(4,783)
Maturities of short-term investments	74	1,715	3,613
Sales of short-term investments	2,379	2,072	2,496
Additions to property, plant and equipment	(1,086)	(1,119)	(1,028)
Other investing activities	31	5	(22)
Cash provided (used) by investing activities	(1,028)	(264)	276
Cash provided (used) by financing activities:			
Proceeds from borrowings, net of debt issuance costs	6,134	—	—
Increase (decrease) in notes payable, net	49	(325)	13
Proceeds from exercise of stock options and other stock issuances	885	700	733
Repurchase of common stock	(3,067)	(4,286)	(4,254)
Dividends — common and preferred	(1,452)	(1,332)	(1,243)
Other financing activities	(58)	(50)	(84)
Cash provided (used) by financing activities	2,491	(5,293)	(4,835)
Effect of exchange rate changes on cash and equivalents	(66)	(129)	45
Net increase (decrease) in cash and equivalents	3,882	217	441
Cash and equivalents, beginning of year	4,466	4,249	3,808
CASH AND EQUIVALENTS, END OF YEAR	**$ 8,348**	**$ 4,466**	**$ 4,249**
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 140	$ 153	$ 125
Income taxes	1,028	757	529
Non-cash additions to property, plant and equipment	121	160	294

Dividends declared and not paid	385	347	320

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

NIKE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK				CAPITAL IN EXCESS OF STATED	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	
	CLASS A		CLASS B					
(In millions, except per share data)	SHARES	AMOUNT	SHARES	AMOUNT	VALUE	(LOSS)	(DEFICIT)	TOTAL
Balance at May 31, 2017	**329**	**$ —**	**1,314**	**$ 3**	**$ 5,710**	**$ (213)**	**$ 6,907**	**$ 12,407**
Stock options exercised			24		600			600
Repurchase of Class B Common Stock			(70)		(254)		(4,013)	(4,267)
Dividends on common stock ($0.78 per share) and preferred stock ($0.10 per share)							(1,265)	(1,265)
Issuance of shares to employees, net of shares withheld for employee taxes			4		110		(28)	82
Stock-based compensation					218			218
Net income							1,933	1,933
Other comprehensive income (loss)						104		104
Reclassifications to retained earnings in accordance with ASU 2018-02						17	(17)	—
Balance at May 31, 2018	**329**	**$ —**	**1,272**	**$ 3**	**$ 6,384**	**$ (92)**	**$ 3,517**	**$ 9,812**
Stock options exercised			18		539			539
Conversion to Class B Common Stock	(14)		14					—
Repurchase of Class B Common Stock			(54)		(227)		(4,056)	(4,283)
Dividends on common stock ($0.86 per share) and preferred stock ($0.10 per share)							(1,360)	(1,360)
Issuance of shares to employees, net of shares withheld for employee taxes			3		142		(3)	139
Stock-based compensation					325			325
Net income							4,029	4,029
Other comprehensive income (loss)						323		323
Adoption of ASU 2016-16 (Note 1)							(507)	(507)
Adoption of ASC Topic 606 (Note 1)							23	23
Balance at May 31, 2019	**315**	**$ —**	**1,253**	**$ 3**	**$ 7,163**	**$ 231**	**$ 1,643**	**$ 9,040**
Stock options exercised			20		703			703
Repurchase of Class B Common Stock			(34)		(161)		(2,872)	(3,033)
							(1,491)	(1,491)

Dividends on common stock ($0.955 per share) and preferred stock ($0.10 per share)								
Issuance of shares to employees, net of shares withheld for employee taxes			4		165		(9)	156
Stock-based compensation					429			429
Net income							2,539	2,539
Other comprehensive income (loss)						(287)		(287)
Adoption of ASC Topic 842 (Note 1)							(1)	(1)
Balance at May 31, 2020	**315**	**$ —**	**1,243**	**$ 3**	**$ 8,299**	**$ (56)**	**$ (191)**	**$ 8,055**

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across a wide range of sport categories, amplified with sport-inspired lifestyle products carrying the Swoosh trademark, as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories using the Jumpman trademark. Sales and operating results of Jordan Brand products are reported within the respective NIKE Brand geographic operating segments. The Hurley brand is focused on action sports and youth lifestyle apparel and accessories under the Hurley trademark. Sales and operating results of Hurley brand products, prior to its divestiture, are reported within the NIKE Brand's North America geographic operating segment. Refer to Note 20 — Acquisitions and Divestitures for information regarding the divestiture of the Company's wholly-owned subsidiary, Hurley. Converse designs, distributes, licenses and sells casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. In some markets outside the U.S., these trademarks are licensed to third parties who design, distribute, market and sell similar products. Operating results of the Converse brand are reported on a stand-alone basis.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of NIKE, Inc. and its subsidiaries (the "Company" or "NIKE"). All significant intercompany transactions and balances have been eliminated.

REVENUE RECOGNITION

Beginning in fiscal 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Prior to fiscal 2019, amounts have not been restated and continue to be reported in accordance with the Company's historical accounting policies. The Company's revenue recognition policies under Topic 606 are described in the following paragraphs and references to prior period policies under Accounting Standard Codification Topic 605 — *Revenue Recognition* (Topic 605), are included below in the event they are substantially different.

Revenue transactions associated with the sale of NIKE Brand footwear, apparel and equipment, as well as Converse products, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. The Company satisfies the performance obligation and records revenues when transfer of control has passed to the customer, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product.

Transfer of control passes to wholesale customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. Control passes to retail store customers at the time of sale and to substantially all digital commerce customers upon shipment. Prior to fiscal 2019, the requirements for recognizing revenue were met upon delivery to the customer. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers. Payment terms for wholesale transactions depend on the country of sale or agreement with the customer and payment is generally required within 90 days or less of shipment to or receipt by the wholesale customer. Payment is due at the time of sale for retail store and digital commerce transactions.

Consideration for trademark licensing contracts is earned through sales-based or usage-based royalty arrangements and the associated revenues are recognized over the license period.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, and are collected by the Company from a customer, are excluded from *Revenues* and *Cost of sales* in the Consolidated Statements of Income. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in *Cost of sales* when the related revenues are recognized.

SALES-RELATED RESERVES

Consideration promised in the Company's contracts with customers is variable due to anticipated reductions such as sales returns, discounts and miscellaneous claims from customers. The Company estimates the most likely amount it will be entitled to receive and records an anticipated reduction against *Revenues*, with an offsetting increase to *Accrued liabilities* at the time revenues are recognized. The estimated cost of inventory for product returns is recorded in *Prepaid expenses and other current assets* on the Consolidated Balance Sheets. Prior to fiscal 2019, the Company's reserve balances were reported net of the estimated cost of inventory for product returns and recognized within *Accounts receivable, net* for wholesale transactions and *Accrued liabilities* for the Company's direct to consumer business, on the Consolidated Balance Sheets.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected, but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly greater or lower than the reserves established, a reduction or increase to net revenues would be recorded in the period in which such determination was made.

COST OF SALES

Cost of sales consists primarily of inventory costs, as well as warehousing costs (including the cost of warehouse labor), third-party royalties, certain foreign currency hedge gains and losses and product design costs. Shipping and handling costs are expensed as incurred and included in *Cost of sales*.

DEMAND CREATION EXPENSE

Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, complimentary product, television, digital and print advertising and media costs, brand events and retail brand presentation. Advertising production costs are expensed the first time an advertisement is run. Advertising media costs are expensed when the advertisement appears. Costs related to brand events are expensed when the event occurs. Costs related to retail brand presentation are expensed when the presentation is complete and delivered.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract. Prepayments made under contracts are included in *Prepaid expenses and other current assets* or *Deferred income taxes and other assets* depending on the period to which the prepayment applies.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sport (e.g., winning a championship). The Company records *Demand creation expense* for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When the Company determines payments are probable, the amounts are reported in *Demand creation expense* ratably over the contract period based on the Company's best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from the Company's estimate due to changes in the endorser's performance, adjustments to *Demand creation expense* may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which the Company records in *Cost of sales* as the related sales occur. For contracts containing minimum guaranteed royalty payments, the Company records the amount of any guaranteed payment in excess of that earned through sales of product within *Demand creation expense*.

Through cooperative advertising programs, the Company reimburses its wholesale customers for certain costs of advertising the Company's products. The Company records these costs in *Demand creation expense* at the point in time it is obligated to its customers for the costs. This obligation may arise prior to the related advertisement being run.

Total advertising and promotion expenses, which the Company refers to as *Demand creation expense*, were $3,592 million, $3,753 million and $3,577 million for the years ended May 31, 2020, 2019 and 2018, respectively. Prepaid advertising and promotion expenses totaled $686 million and $773 million at May 31, 2020 and 2019, respectively, of which $326 million and $333 million, respectively, was recorded in *Prepaid expenses and other current assets*, and $360 million and $440 million, respectively, was recorded in *Deferred income taxes and other assets*, depending on the period to which the prepayment applied.

OPERATING OVERHEAD EXPENSE

Operating overhead expense consists primarily of wage and benefit-related expenses, research and development costs, bad debt expense, as well as other administrative expenses, such as rent, depreciation and amortization, professional services, meetings and travel.

CASH AND EQUIVALENTS

Cash and equivalents represent cash and short-term, highly liquid investments, that are both readily convertible to known amounts of cash, and so near their maturity they present insignificant risk of changes in value because of changes in interest rates, including commercial paper, U.S. Treasury, U.S. Agency, money market funds, time deposits and corporate debt securities with maturities of 90 days or less at the date of purchase.

SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid investments, including commercial paper, U.S. Treasury, U.S. Agency, time deposits and corporate debt securities, with maturities over 90 days at the date of purchase. Debt securities the Company has the ability and positive intent to hold to maturity are carried at amortized cost. At May 31, 2020 and 2019, the Company did not hold any short-term investments classified as trading or held-to-maturity.

At May 31, 2020 and 2019, *Short-term investments* consisted of available-for-sale debt securities, which are recorded at fair value with unrealized gains and losses reported, net of tax, in *Accumulated other comprehensive income (loss)*, unless unrealized losses are determined to be other than temporary. Realized gains and losses on the sale of securities are determined by specific identification. The Company considers all available-for-sale debt securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and, therefore, classifies all securities with maturity dates beyond 90 days at the date of purchase as current assets within *Short-term investments* on the Consolidated Balance Sheets.

Refer to Note 6 — Fair Value Measurements for more information on the Company's short-term investments.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Accounts receivable, net consist primarily of amounts receivable from customers. The Company makes ongoing estimates relating to the collectability of its accounts receivable and maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. In addition to judgments about the creditworthiness of significant customers based on ongoing credit evaluations, the Company considers historical levels of credit losses, as well as macroeconomic and industry trends, such as the impacts of COVID–19, to determine the amount of the allowance. Accounts receivable with anticipated collection dates greater than 12 months from the balance sheet date and related allowances are considered non-current and recorded in *Deferred income taxes and other assets*. The allowance for uncollectible accounts receivable was $214 million and $30 million as of May 31, 2020 and 2019, respectively.

INVENTORY VALUATION

Inventories are stated at lower of cost and net realizable value, and valued on either an average or a specific identification cost basis. In some instances, the Company ships product directly from its suppliers to the customer, with the related inventory and cost of sales recognized on a specific identification basis. Inventory costs primarily consist of product cost from the Company's suppliers, as well as inbound freight, import duties, taxes, insurance and logistics and other handling fees.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost. Depreciation is determined on a straight-line basis for land improvements, buildings and leasehold improvements over 2 to 40 years and for machinery and equipment over 2 to 15 years.

Depreciation and amortization of assets used in manufacturing, warehousing and product distribution are recorded in *Cost of sales*. Depreciation and amortization of all other assets are recorded in *Operating overhead expense*.

SOFTWARE DEVELOPMENT COSTS

Internal Use Software: Expenditures for major software purchases and software developed for internal use are capitalized and amortized over a 2 to 12-year period on a straight-line basis. The Company's policy provides for the capitalization of external direct costs associated with developing or obtaining internal use computer software. In addition, the Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer software projects.

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The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred.

Computer Software to be Sold, Leased or Otherwise Marketed: Development costs of computer software to be sold, leased or otherwise marketed as an integral part of a product are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established. Therefore, software development costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally most software development costs have been expensed as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

The Company performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or an intangible asset with an indefinite life below its carrying value. Events or changes in circumstances that may trigger interim impairment reviews include significant changes in business climate, operating results, planned investments in the reporting unit, planned divestitures or an expectation that the carrying amount may not be recoverable, among other factors.

For purposes of testing goodwill for impairment, the Company allocates goodwill across its reporting units, which are considered the Company's operating segments. The Company may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, an impairment test is unnecessary. If an impairment test is necessary, the Company will estimate the fair value of its related reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is determined to be impaired and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

Indefinite-lived intangible assets primarily consist of acquired trade names and trademarks. The Company may first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the indefinite-lived intangible asset is not impaired, no quantitative fair value measurement is necessary. If a quantitative fair value measurement calculation is required for these intangible assets, the Company primarily utilizes the relief-from-royalty method. This method assumes trade names and trademarks have value to the extent their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires the Company to estimate the future revenues for the related brands, the appropriate royalty rate and the weighted average cost of capital. If the carrying value of the indefinite-lived intangible exceeds its fair value, the asset is determined to be impaired and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

OPERATING LEASES

Beginning in fiscal 2020, the Company adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Prior period amounts have not been restated and continue to be reported in accordance with the Company's historical accounting policies. The Company's lease recognition policies under Topic 842 are described in the following paragraphs.

The Company primarily leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets. The Company determines if an arrangement is a lease at inception and begins recording lease activity at the commencement date, which is generally the date in which the Company takes possession of or controls the physical use of the asset. Right-of-use (ROU) assets and lease liabilities are recognized based on the present value of lease payments over the lease term with lease expense recognized on a straight-line basis. The Company's incremental borrowing rate is used to determine the present value of future lease payments unless the implicit rate is readily determinable.

Lease agreements may contain rent escalation clauses, renewal or termination options, rent holidays or certain landlord incentives, including tenant improvement allowances. ROU assets include amounts for scheduled rent increases and are reduced by the amount of lease incentives. The lease term includes the non-cancelable period of the lease and options to extend or terminate the lease when it is reasonably certain the Company will exercise those options. Certain lease agreements include variable lease payments, which are based on a percent of retail sales over specified levels or adjust periodically for inflation as a result of changes in a published index, primarily the Consumer Price Index.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivatives, equity securities and available-for-sale debt 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 a three-level hierarchy established by the Financial Accounting Standards Board (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 or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs with 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 a majority of 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 its counterparties.

The Company's fair value measurement process includes comparing fair values to another independent pricing vendor to ensure appropriate fair values are recorded.

Refer to Note 6 — Fair Value Measurements for additional information.

FOREIGN CURRENCY TRANSLATION AND FOREIGN CURRENCY TRANSACTIONS

Adjustments resulting from translating foreign functional currency financial statements into U.S. Dollars are included in the foreign currency translation adjustment, a component of *Accumulated other comprehensive income (loss)* in *Total shareholders' equity*.

The Company's global subsidiaries have various assets and liabilities, primarily receivables and payables, which are denominated in currencies other than their functional currency. These balance sheet items are subject to re-measurement, the impact of which is recorded in *Other (income) expense, net*, within the Consolidated Statements of Income.

ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to reduce its exposure to changes in foreign currency exchange rates and interest rates. All derivatives are recorded at fair value on the Consolidated Balance Sheets and changes in the fair value of derivative financial instruments are either recognized in *Accumulated other comprehensive income (loss)* (a component of *Total shareholders' equity*), *Long-term debt* or *Net income* depending on the nature of the underlying exposure, whether the derivative is formally designated as a hedge and, if designated, the extent to which the hedge is effective. The Company classifies the cash flows at settlement from derivatives in the same category as the cash flows from the related hedged items. For undesignated hedges and designated cash flow hedges, this is primarily within the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. For designated net investment hedges, this is within the *Cash used by investing activities* component of the Consolidated Statements of Cash Flows. For the Company's fair value hedges, which are interest rate swaps used to mitigate the change in fair value of its fixed-rate debt attributable to changes in interest rates, the related cash flows from periodic interest payments are reflected within the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. Refer to Note 14 — Risk Management and Derivatives for additional information on the Company's risk management program and derivatives.

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation by estimating the fair value, net of estimated forfeitures, of equity awards and recognizing the related expense as *Cost of sales* or *Operating overhead expense*, as applicable, in the Consolidated Statements of Income on a straight-line basis over the vesting period. Substantially all awards vest ratably over four years of continued employment, with stock options expiring ten years from the date of grant. The fair value of options, stock appreciation rights, and employees' purchase rights under the employee stock purchase plans (ESPPs) is determined using the Black-Scholes option pricing model. The fair value of restricted stock and restricted stock units is established by the market price on the date of grant.

Refer to Note 11 — Common Stock and Stock-Based Compensation for additional information on the Company's stock-based compensation programs.

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company records a valuation allowance to reduce deferred tax assets to the amount management believes is more likely than not to be realized.

The Company recognizes a tax benefit from uncertain tax positions in the financial statements only when it is more likely than not the position will be sustained upon examination by relevant tax authorities. The Company recognizes interest and penalties related to income tax matters in *Income tax expense*.

Refer to Note 9 — Income Taxes for further discussion.

EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing *Net income* by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive stock options and awards.

Refer to Note 12 — Earnings Per Share for further discussion.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Additionally, the extent to which the evolving COVID-19 pandemic impacts the Company's financial statements will depend on a number of factors, including the magnitude and duration of the pandemic. The Company expects it may have a material, adverse impact on future revenue growth as well as overall profitability and may continue to lead to higher than normal inventory levels, revised payment terms with certain wholesale customers, higher sales-related reserves, factory cancellation costs and a volatile effective tax rate driven by changes in the mix of earnings across the Company's jurisdictions.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which replaced existing lease accounting guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record ROU assets and corresponding lease liabilities on the balance sheet. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The new guidance requires the Company to continue to classify leases as either an operating or finance lease, with classification affecting the pattern of expense recognition in the income statement. In addition, the new standard requires enhanced disclosure surrounding the amount, timing and uncertainty of cash flows arising from leasing agreements.

In July 2018, the FASB issued ASU No. 2018-11, which provided entities with an additional transition method. Under the new transition method, an entity initially applies the new standard at the adoption date, versus at the beginning of the earliest period presented, and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company elected this transition method and adopted Topic 842 using a modified retrospective approach in the first quarter of fiscal 2020 with the cumulative effect of initially applying the new standard recognized in *Retained earnings* at June 1, 2019. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous lease accounting guidance in Accounting Standards Codification (ASC) Topic 840 - *Leases*.

Upon adoption, the Company elected the package of transition practical expedients which allowed the Company to carry forward prior conclusions related to: (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for existing leases. Additionally, the Company elected the practical expedient to not separate lease components from nonlease components for all real estate leases within the portfolio. The Company made an accounting policy election to not record leases with an initial term of 12 months or less on the Consolidated Balance Sheets and will recognize related lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term.

In preparation for implementation, the Company executed changes to business processes, including implementing a software solution to assist with the new reporting requirements. The adoption of Topic 842 resulted in a $2.7 billion increase to total assets and total liabilities as of June 1, 2019. Upon adoption, the Company recognized $3.2 billion of total operating lease liabilities and $2.9 billion of operating lease ROU assets, as well as removed $348 million of existing deferred rent liabilities, which was recorded as an offset against the ROU assets. In addition, the Company removed $184 million of existing assets and liabilities related to build-to-suit lease arrangements. Several other asset and liability line items in the Company's Consolidated Balance Sheets were also impacted by immaterial amounts. The adoption of the standard did not have a material impact on the Consolidated Statements of Income or Consolidated Statements of Cash Flows. For more information on the Company's lease arrangements refer to Note 19 — Leases.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The updated guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company adopted the standard on June 1, 2018, using a modified retrospective approach, with the cumulative effect of applying the new standard recognized in *Retained earnings* at the date of adoption. The adoption resulted in reductions to *Retained earnings, Deferred income taxes and other assets*, and *Prepaid expenses and other current assets* of $507 million, $422 million and $45 million, respectively, and an increase in *Deferred income taxes and other liabilities* of $40 million on the Consolidated Balance Sheets.

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NOTE 2 — INVENTORIES

Inventory balances of $7,367 million and $5,622 million at May 31, 2020 and 2019, respectively, were substantially all finished goods.

NOTE 3 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net included the following:

	MAY 31,	
(Dollars in millions)	**2020**	**2019**
Land and improvements	$ 345	$ 329
Buildings	2,442	2,445
Machinery and equipment	2,751	2,726
Internal-use software	1,483	1,609
Leasehold improvements	1,554	1,563
Construction in process	1,086	797
Total property, plant and equipment, gross	9,661	9,469
Less accumulated depreciation	4,795	4,725
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,866**	**$ 4,744**

Capitalized interest was not material for the years ended May 31, 2020, 2019 and 2018.

NOTE 4 — IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets, net consist of indefinite-lived trademarks, acquired trademarks and other intangible assets. The following table summarizes the Company's *Identifiable intangible assets, net* balances as of May 31, 2020 and 2019:

	MAY 31,					
	2020			**2019**		
(Dollars in millions)	**GROSS CARRYING AMOUNT**	**ACCUMULATED AMORTIZATION**	**NET CARRYING AMOUNT**	**GROSS CARRYING AMOUNT**	**ACCUMULATED AMORTIZATION**	**NET CARRYING AMOUNT**
Indefinite-lived trademarks	$ 246	$ —	$ 246	$ 281	$ —	$ 281
Acquired trademarks and other	47	19	28	22	20	2
IDENTIFIABLE INTANGIBLE ASSETS, NET	**$ 293**	**$ 19**	**$ 274**	**$ 303**	**$ 20**	**$ 283**

Goodwill was $223 million and $154 million at May 31, 2020 and 2019, respectively and there were no accumulated impairment losses as of May 31, 2020 and 2019. Additionally, the impact to *Goodwill* during fiscal 2020 and 2019 as a result of acquisitions and divestitures was not material.

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NOTE 5 — ACCRUED LIABILITIES

Accrued liabilities included the following:

	MAY 31,			
(Dollars in millions)	2020		2019	
Compensation and benefits, excluding taxes	$	1,248	$	1,232
Sales-related reserves		1,178		1,218
Allowance for cumulative foreign currency translation losses(1)		405		—
Endorsement compensation		393		424
Dividends payable		384		346
Import and logistics costs		273		296
Taxes other than income taxes payable		202		234
Fair value of derivatives		190		52
Liabilities held-for-sale(1)		146		—
Advertising and marketing		97		114
Collateral received from counterparties to hedging instruments		—		289
Other(2)		668		805
TOTAL ACCRUED LIABILITIES	**$**	**5,184**	**$**	**5,010**

(1) Refer to Note 20 — Acquisitions and Divestitures for additional information.

(2) Other consists of various accrued expenses with no individual item accounting for more than 5% of the total Accrued liabilities balance at May 31, 2020 and 2019.

NOTE 6 — FAIR VALUE MEASUREMENTS

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of May 31, 2020 and 2019 and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement. Refer to Note 1 — Summary of Significant Accounting Policies for additional detail regarding the Company's fair value measurement methodology.

	MAY 31, 2020					
(Dollars in millions)	ASSETS AT FAIR VALUE		CASH AND EQUIVALENTS		SHORT-TERM INVESTMENTS	
Cash	$	596	$	596	$	—
Level 1:						
U.S. Treasury securities		1,204		800		404
Level 2:						
Commercial paper and bonds		32		—		32
Money market funds		5,973		5,973		—
Time deposits		981		979		2

U.S. Agency securities		1		—		1
Total Level 2		6,987		6,952		35
TOTAL	**$**	**8,787**	**$**	**8,348**	**$**	**439**

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(Dollars in millions)	MAY 31, 2019 ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS
Cash	$ 853	$ 853	$ —
Level 1:			
U.S. Treasury securities	347	200	147
Level 2:			
Commercial paper and bonds	34	1	33
Money market funds	1,637	1,637	—
Time deposits	1,791	1,775	16
U.S. Agency securities	1	—	1
Total Level 2	3,463	3,413	50
TOTAL	**$ 4,663**	**$ 4,466**	**$ 197**

As of May 31, 2020, the Company held $396 million of available-for-sale debt securities with maturity dates within one year and $43 million with maturity dates over one year and less than five years in *Short-term investments* on the Consolidated Balance Sheets. The fair value of the Company's available-for-sale debt securities approximates their amortized cost.

Included in *Interest expense (income), net* was interest income related to the Company's investment portfolio of $62 million, $82 million and $70 million for the years ended May 31, 2020, 2019 and 2018, respectively.

The Company elects to record the gross assets and liabilities of its derivative financial instruments on the 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. Any amounts of cash collateral posted related to these instruments associated with the Company's credit-related contingent features are recorded in *Prepaid expenses and other current assets*, which would further offset against the Company's derivative liability balance. 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 Consolidated Statements of Cash Flows. Any amounts of non-cash collateral received, such as securities, are not recorded on the Consolidated Balance Sheets pursuant to U.S. GAAP. For further information related to credit risk, refer to Note 14 — Risk Management and Derivatives.

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis as of May 31, 2020 and 2019 and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

	MAY 31, 2020					
	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
(Dollars in millions)	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(1)	$ 94	$ 91	$ 3	$ 205	$ 188	$ 17
Embedded derivatives	1	1	—	2	2	—

TOTAL	**$ 95**	**$ 92**	**$ 3**	**$ 207**	**$ 190**	**$ 17**

(1) If the foreign exchange derivative instruments had been netted on the Consolidated Balance Sheets, the asset and liability positions would have been reduced by $76 million as of May 31, 2020. As of that date, no amount of cash collateral had been received or posted on the derivative asset and liability balances related to these foreign exchange derivative instruments.

(Dollars in millions)	MAY 31, 2019 DERIVATIVE ASSETS ASSETS AT FAIR VALUE	OTHER CURRENT ASSETS	OTHER LONG-TERM ASSETS	DERIVATIVE LIABILITIES LIABILITIES AT FAIR VALUE	ACCRUED LIABILITIES	OTHER LONG-TERM LIABILITIES
Level 2:						
Foreign exchange forwards and options(1)	$ 611	$ 611	$ —	$ 51	$ 51	$ —
Embedded derivatives	11	5	6	3	1	2
TOTAL	**$ 622**	**$ 616**	**$ 6**	**$ 54**	**$ 52**	**$ 2**

(1) 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 $50 million as of May 31, 2019. As of that date, the Company had received $289 million of cash collateral from various counterparties related to foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of May 31, 2019.

No transfers among the levels within the fair value hierarchy occurred during the years ended May 31, 2020 or 2019.

For additional information related to the Company's derivative financial instruments, refer to Note 14 — Risk Management and Derivatives. For fair value information regarding *Notes payable* and *Long-term debt*, refer to Note 7 — Short-Term Borrowings and Credit Lines and Note 8 — Long-Term Debt, respectively. The carrying amounts of other current financial assets and other current financial liabilities approximate fair value.

NON-RECURRING FAIR VALUE MEASUREMENTS

As further discussed in Note 20 — Acquisitions and Divestitures, the Company met the criteria to recognize the related assets and liabilities of its Brazil, Argentina, Chile and Uruguay entities as held-for-sale in the third quarter of fiscal 2020 and the classification of these balances remain as such, as of May 31, 2020. This required the Company to remeasure the disposal groups at fair value, less costs to sell, which is considered a Level 3 fair value measurement and was based on each transaction's estimated consideration at the date of close. The carrying value of the Argentina, Chile and Uruguay disposal groups exceeded their fair value, less costs to sell and as a result, the Company recognized a non-recurring impairment charge of $405 million. This charge was primarily due to the anticipated release of non-cash cumulative foreign currency translation losses which were included as part of the carrying value of the Argentina, Chile and Uruguay disposal groups when measuring for impairment. For the fiscal year ended May 31, 2020, the charge was recognized in *Other (income) expense, net* on the Consolidated Statements of Income, classified within Corporate, and a corresponding allowance within *Accrued Liabilities* on the Consolidated Balance Sheets.

All other assets or liabilities required to be measured at fair value on a non-recurring basis as of May 31, 2020 were immaterial. As of May 31, 2019, all assets or liabilities required to be measured at fair value on a non-recurring basis were immaterial.

NOTE 7 — SHORT-TERM BORROWINGS AND CREDIT LINES

Notes payable as of May 31, 2020 and 2019 are summarized below:

	MAY 31,			
	2020		2019	
(Dollars in millions)	BORROWINGS	INTEREST RATE	BORROWINGS	INTEREST RATE
Notes payable:				
Commercial paper(1)	$ 248	1.65 %	$ —	0.00 %
U.S. operations	—	0.00 %	2	0.00 %(2)
Non-U.S. operations	—	0.00 %	7	26.00 %(2)
TOTAL NOTES PAYABLE	**$ 248**		**$ 9**	

(1) Commercial paper borrowings with original maturities greater than three months are included in Proceeds from borrowings, net of debt issuance costs on the Consolidated Statements of Cash Flows.

(2) Weighted average interest rate includes non-interest bearing overdrafts.

The carrying amounts reflected in the Consolidated Balance Sheets for *Notes payable* approximate fair value.

On August 16, 2019, the Company entered into a committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings, with the option to increase borrowings up to $3 billion in total upon lender approval. The facility matures on August 16, 2024, with a one year extension option prior to any anniversary of the closing date, provided that in no event shall it extend beyond August 16, 2026. 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 0.46%. The facility fee is 0.04% of the total commitment. This facility replaces the prior $2 billion credit facility agreement entered into on August 28, 2015, which would have matured August 28, 2020. As of and for the periods ended May 31, 2020 and 2019, no amounts were outstanding under either committed credit facility.

On April 6, 2020, the Company entered into a committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings, in addition to the existing credit facility discussed above. The new facility matures on April 5, 2021. 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 1.05%. The facility fee is 0.20% of the total commitment. As of May 31, 2020, no amounts were outstanding under this committed credit facility.

NOTE 8 — LONG-TERM DEBT

Long-term debt, net of unamortized premiums, discounts and debt issuance costs, comprises the following:

Scheduled Maturity (Dollars and Yen in millions)		ORIGINAL PRINCIPAL	INTEREST RATE	INTEREST PAYMENTS	BOOK VALUE OUTSTANDING AS OF MAY 31, 2020		2019	
Corporate Term Debt:(1)(2)								
May 1, 2023	$	500	2.25 %	Semi-Annually	$	499	$	498
March 27, 2025		1,000	2.40 %	Semi-Annually		994		—
November 1, 2026		1,000	2.38 %	Semi-Annually		995		994
March 27, 2027		1,000	2.75 %	Semi-Annually		994		—
March 27, 2030		1,500	2.85 %	Semi-Annually		1,489		—
March 27, 2040		1,000	3.25 %	Semi-Annually		985		—
May 1, 2043		500	3.63 %	Semi-Annually		495		495
November 1, 2045		1,000	3.88 %	Semi-Annually		984		983
November 1, 2046		500	3.38 %	Semi-Annually		491		491
March 27, 2050		1,500	3.38 %	Semi-Annually		1,480		—
Japanese Yen Notes:(3)								
August 20, 2001 through November 20, 2020	¥	9,000	2.60 %	Quarterly	$	2	$	6
August 20, 2001 through November 20, 2020		4,000	2.00 %	Quarterly		1		3
Total						9,409		3,470
Less current maturities						3		6
TOTAL LONG-TERM DEBT					**$**	**9,406**	**$**	**3,464**

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

(2) *The bonds are redeemable at the Company's option 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. However, 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 on or after the Par Call Date, as defined in the respective notes.*

(3) *NIKE Logistics YK assumed a total of ¥13.0 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 years ending May 31, 2021 through 2025 are $3 million, $0 million, $500 million, $0 million and $1,000 million, respectively, at face value.

The Company's long-term debt is recorded at adjusted cost, net of unamortized premiums, discounts and debt issuance costs. 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 $10,645 million at May 31, 2020 and $3,524 million at May 31, 2019.

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NOTE 9 — INCOME TAXES

Income before income taxes is as follows:

(Dollars in millions)	YEAR ENDED MAY 31, 2020	2019	2018
Income before income taxes:			
United States	$ 2,954	$ 593	$ 744
Foreign	(67)	4,208	3,581
TOTAL INCOME BEFORE INCOME TAXES	**$ 2,887**	**$ 4,801**	**$ 4,325**

The provision for income taxes is as follows:

(Dollars in millions)	YEAR ENDED MAY 31, 2020	2019	2018
Current:			
United States			
Federal	$ (109)	$ 74	$ 1,167
State	81	56	45
Foreign	756	608	533
Total Current	728	738	1,745
Deferred:			
United States			
Federal	(231)	(33)	595
State	(47)	(9)	25
Foreign	(102)	76	27
Total Deferred	(380)	34	647
TOTAL INCOME TAX EXPENSE	**$ 348**	**$ 772**	**$ 2,392**

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Tax Act") which significantly changed previous U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21% and a one-time transition tax on deemed repatriation of undistributed foreign earnings. For fiscal 2018, the change in the corporate tax rate resulted in a blended U.S. federal statutory rate for the Company of approximately 29%.

As of May 31, 2020 and 2019, long-term income taxes payable were $757 million and $902 million, respectively, and were included within *Deferred income taxes and other assets* on the Consolidated Balance Sheets.

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate is as follows:

	YEAR ENDED MAY 31, 2020	2019	2018
Federal income tax rate	21.0 %	21.0 %	29.2 %
State taxes, net of federal benefit	0.8 %	1.0 %	0.8 %
Foreign earnings	5.9 %	-1.1 %	-19.2 %
Foreign-derived intangible income benefit related to the Tax Act	-8.1 %	— %	— %
Transition tax related to the Tax Act	— %	— %	43.3 %
Remeasurement of deferred tax assets and liabilities related to the Tax Act	— %	— %	3.7 %
Excess tax benefits from share-based compensation	-7.2 %	-3.6 %	-5.3 %
Income tax audits and contingency reserves	-1.4 %	1.3 %	2.9 %

U.S. research and development tax credit	-1.8 %	-1.0 %	-0.6 %
Other, net	2.9 %	-1.5 %	0.5 %
EFFECTIVE INCOME TAX RATE	**12.1 %**	**16.1 %**	**55.3 %**

The effective tax rate for the fiscal year ended May 31, 2020 was lower than the effective tax rate for the fiscal year ended May 31, 2019 due to increased benefits from discrete items such as stock-based compensation. The foreign earnings rate impact shown above for the fiscal year ended May 31, 2020 includes withholding taxes of 6.5% and held for sale accounting items of

2.9%, offset by a benefit for statutory rate differences and other items of 3.5%. The foreign derived intangible income benefit reflects U.S. tax benefits introduced by the Tax Act for companies serving foreign markets. This benefit became available to the Company as a result of a restructuring of its intellectual property interests. Income tax audit and contingency reserves reflect benefits associated with the modification of the treatment of certain research and development expenditures of 2.9% offset by an increase related to the resolution of an audit by the U.S. Internal Revenue Service ("IRS") and other matters of 1.5%. Included in other is the deferral of income tax effects related to intra-entity transfers of inventory of 2.3% and other items of 0.6%.

The effective tax rate for the year fiscal ended May 31, 2019 was lower than the effective tax rate for the fiscal year ended May 31, 2018 due to significant changes related to the enactment of the Tax Act in fiscal year 2018 and reduction in the U.S. federal statutory rate to 21% in fiscal year 2019.

Deferred tax assets and liabilities comprise the following as of:

	MAY 31,	
(Dollars in millions)	**2020**	**2019**
Deferred tax assets:		
Inventories	$ 84	$ 66
Sales return reserves	115	128
Deferred compensation	295	271
Stock-based compensation	168	156
Reserves and accrued liabilities	120	101
Operating lease liabilities	491	—
Capitalized research and development expenditures	189	—
Net operating loss carry-forwards	21	81
Other	127	125
Total deferred tax assets	1,610	928
Valuation allowance	(26)	(88)
Total deferred tax assets after valuation allowance	1,584	840
Deferred tax liabilities:		
Foreign withholding tax on undistributed earnings of foreign subsidiaries	(165)	(235)
Property, plant and equipment	(232)	(188)
Right-of-use assets	(423)	—
Other	(32)	(41)
Total deferred tax liabilities	(852)	(464)
NET DEFERRED TAX ASSET	**$ 732**	**$ 376**

The above amounts exclude deferred taxes of the Company's Brazil, Argentina, Chile and Uruguay operations which are classified as held-for-sale on the Consolidated Balance Sheets as of May 31, 2020. See Note 20 — Acquisitions and Divestitures for additional information.

The following is a reconciliation of the changes in the gross balance of unrecognized tax benefits as of:

	MAY 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Unrecognized tax benefits, beginning of the period	$ 808	$ 698	$ 461
Gross increases related to prior period tax positions	181	85	19
Gross decreases related to prior period tax positions	(171)	(32)	(12)
Gross increases related to current period tax positions	50	81	249
Settlements	(58)	—	—
Lapse of statute of limitations	(28)	(35)	(20)
Changes due to currency translation	(11)	11	1
UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD	**$ 771**	**$ 808**	**$ 698**

As of May 31, 2020, total gross unrecognized tax benefits, excluding related interest and penalties, were $771 million, $536 million of which would affect the Company's effective tax rate if recognized in future periods. The majority of the total gross unrecognized tax benefits are long-term in nature and included within *Deferred income taxes and other assets* on the Consolidated Balance Sheets.

The Company recognizes interest and penalties related to income tax matters in income tax expense. The liability for payment of interest and penalties decreased by $16 million during the year ended May 31, 2020, increased by $17 million during the fiscal year ended May 31, 2019 and decreased by $14 million during the fiscal year ended May 31, 2018. As of May 31, 2020 and 2019, accrued interest and penalties related to uncertain tax positions were $158 million and $174 million, respectively (excluding federal benefit).

The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. The Company is currently under audit by the IRS for fiscal years 2017 through 2019. The Company has closed all U.S. federal income tax matters through fiscal 2016, with the exception of certain transfer pricing adjustments. Tax years after 2009 remain open in certain major foreign jurisdictions. 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 $50 million within the next 12 months. In January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. The Company believes the investigation is without merit. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to current and prior periods, and the Company's Netherlands income taxes in the future could increase.

The Company historically provided for U.S. income taxes on the undistributed earnings of foreign subsidiaries unless they were considered indefinitely reinvested outside the United States. As a result of the enactment of the Tax Act, in fiscal 2018 the Company reevaluated its historic indefinite reinvestment assertion and determined that any historical or future undistributed earnings of foreign subsidiaries are no longer considered to be indefinitely reinvested. Effective January 1, 2020, however, the tax law in the Netherlands, one of the Company's major jurisdictions, changed. As a result of the change in law, the Company's undistributed earnings in the Netherlands are subject to withholding tax upon distribution. It is the Company's intention to indefinitely reinvest the historical earnings of its foreign subsidiaries outside North America prior to May 31, 2020 to ensure there is sufficient working capital to expand operations outside the United States. Accordingly, the Company has not recorded a deferred tax liability related to foreign withholding taxes on approximately $8.1 billion of undistributed earnings of these foreign subsidiaries as of May 31, 2020. Withholding taxes of approximately $1.2 billion would be payable upon the remittance of these undistributed earnings as of May 31, 2020.

A portion of the Company's foreign operations benefit from a tax holiday, which is set to expire in 2021. This tax holiday may be extended when certain conditions are met or may be terminated early if certain conditions are not met. The tax benefit attributable to this tax holiday was $238 million, $167 million and $126 million for the fiscal years ended May 31, 2020, 2019 and 2018, respectively. The benefit of the tax holiday on diluted earnings per common share was $0.15, $0.10 and $0.08 for the fiscal years ended May 31, 2020, 2019 and 2018, respectively.

Deferred tax assets at May 31, 2020 and 2019 were reduced by a valuation allowance. For the fiscal year ended May 31, 2020, a valuation allowance was provided for U.S. foreign tax credit carry-forwards and on tax benefits generated by entities with operating losses. For the fiscal year ended May 31, 2019, the valuation allowance provided primarily related to tax benefits generated by certain entities with operating losses. There was a $62 million net decrease in the valuation allowance for the fiscal year ended May 31, 2020, compared to a $7 million net decrease for the fiscal year ended May 31, 2019, and $13 million net increase for the year ended May 31, 2018. The decrease in the Company's net valuation allowance for the fiscal year ended May 31, 2020 is primarily related to the classification of the Company's Brazil and Argentina operations as held-for-sale on the Consolidated Balance Sheets as of May 31, 2020. See Note 20 — Acquisitions and Divestitures for additional information.

The Company has recorded deferred tax assets of $15 million at May 31, 2020 for U.S. foreign tax credit carry-forwards which will begin to expire in 2030.

The Company has available domestic and foreign loss carry-forwards of $83 million at May 31, 2020. If not utilized, such losses will expire as follows:

	YEAR ENDING MAY 31,						
(Dollars in millions)	**2021**	**2022**	**2023**	**2024**	**2025-2040**	**INDEFINITE**	**TOTAL**
Net operating losses	$ —	$ 3	$ 2	$ 2	$ 59	$ 17	$ 83

The above amounts at May 31, 2020 exclude net operating loss carry-forwards of the Company's Brazil, Argentina and Chile operations which are included in assets held-for-sale on the Consolidated Balance Sheets at May 31, 2020. See Note 20 — Acquisitions and Divestitures for additional information.

NOTE 10 — REDEEMABLE PREFERRED STOCK

Sojitz America is the sole owner of the Company's authorized redeemable preferred stock, $1 par value, which is redeemable at the option of Sojitz America or the Company at par value aggregating $0.3 million. A cumulative dividend of $0.10 per share is payable annually on May 31 and no dividends may be declared or paid on the common stock of the Company unless dividends on the redeemable preferred stock have been declared and paid in full. There have been no changes in the redeemable preferred stock in the fiscal years ended May 31, 2020, 2019 and 2018. As the holder of the redeemable preferred stock, Sojitz America does not have general voting rights, but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries, on merger, consolidation, liquidation or dissolution of the Company, or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States. The redeemable preferred stock has been fully issued to Sojitz America and is not blank check preferred stock. The Company's articles of incorporation do not permit the issuance of additional preferred stock.

NOTE 11 — COMMON STOCK AND STOCK-BASED COMPENSATION

COMMON STOCK

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 holders of Class A and Class B Common Stock. From time to time, the Company's Board of Directors authorizes share repurchase programs for the repurchase of Class B Common Stock. The value of repurchased shares is deducted from *Total shareholders' equity* through allocation to *Capital in excess of stated value* and *Retained earnings*.

STOCK-BASED COMPENSATION

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 equity 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. The Company generally grants stock options and restricted stock on an annual basis. Substantially all awards under the Stock Incentive Plan vest ratably over 4 years of continued employment, with stock options expiring 10 years from the date of grant.

The following table summarizes the Company's total stock-based compensation expense recognized in *Cost of sales* or *Operating overhead expense*, as applicable:

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2020**	**2019**	**2018**
Stock options(1)	$ 237	$ 207	$ 149
ESPPs	53	40	34
Restricted stock	139	78	35
TOTAL STOCK-BASED COMPENSATION EXPENSE	**$ 429**	**$ 325**	**$ 218**

(1) *Expense for stock options includes the expense associated with stock appreciation rights. Accelerated stock option expense is recorded for employees meeting certain retirement eligibility requirements. Accelerated stock option expense was $53 million, $41 million and $18 million for the fiscal years ended May 31, 2020, 2019 and 2018, respectively.*

The income tax benefit related to stock-based compensation expense was $207 million, $175 million and $230 million for the fiscal years ended May 31, 2020, 2019 and 2018, respectively, and reported within *Income tax expense*.

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STOCK OPTIONS

The weighted average fair value per share of the options granted during the years ended May 31, 2020, 2019 and 2018, computed as of the grant date using the Black-Scholes pricing model, was $18.71, $22.78 and $9.82, respectively. The weighted average assumptions used to estimate these fair values were as follows:

	YEAR ENDED MAY 31,		
	2020	2019	2018
Dividend yield	1.0 %	1.0 %	1.2 %
Expected volatility	23.0 %	26.6 %	16.4 %
Weighted average expected life (in years)	6.0	6.0	6.0
Risk-free interest rate	1.5 %	2.8 %	2.0 %

Expected volatilities are based on the historical volatility of the Company's common stock, the implied volatility in market traded options on the Company's common stock with a term greater than one year, as well as 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.

The following summarizes the stock option transactions under the plan discussed above:

	SHARES(1)	WEIGHTED AVERAGE OPTION PRICE
	(In millions)	
Options outstanding as of May 31, 2019	91.3	$ 50.59
Exercised	(20.1)	35.26
Forfeited	(2.2)	75.74
Granted	19.1	85.29
Options outstanding as of May 31, 2020	88.1	$ 60.98

(1) Includes stock appreciation rights transactions.

Options exercisable as of May 31, 2020 were 48.5 million and had a weighted average option price of $46.91 per share. The aggregate intrinsic value for options outstanding and exercisable at May 31, 2020 was $3,316 million and $2,506 million, respectively. The total intrinsic value of the options exercised during the years ended May 31, 2020, 2019 and 2018 was $1,161 million, $938 million and $889 million, respectively. The intrinsic value is the amount by which the market value of the underlying stock exceeds the exercise price of the options. The weighted average contractual life remaining for options outstanding and options exercisable at May 31, 2020 was 6.2 years and 4.5 years, respectively. As of May 31, 2020, the Company had $411 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in *Cost of sales* or *Operating overhead expense*, as applicable, over a weighted average remaining period of 2.6 years.

EMPLOYEE STOCK PURCHASE PLANS

In addition to the Stock Incentive Plan, the Company gives employees the right to purchase shares at a discount from the market price under employee stock purchase plans (ESPPs). Subject to the annual statutory limit, 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. Employees purchased 2.7 million, 2.5 million and 3.1 million shares during each of the fiscal years ended May 31, 2020, 2019 and 2018, respectively.

RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Recipients of restricted stock are entitled to cash dividends and to vote their respective shares throughout the period of restriction. Recipients of restricted stock units are entitled to dividend equivalent cash payments upon vesting. The number of restricted stock and restricted stock units vested includes shares of common stock withheld by the Company on behalf of employees to satisfy the minimum statutory tax withholding requirements.

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The following summarizes the restricted stock and restricted stock unit activity under the plan discussed above:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
	(In millions)	
Nonvested as of May 31, 2019	4.4	$ 70.93
Vested	(1.1)	72.64
Forfeited	(0.3)	79.62
Granted	3.8	88.26
Nonvested as of May 31, 2020	6.8	$ 79.84

The weighted average fair value per share of restricted stock and restricted stock units granted for the years ended May 31, 2020, 2019 and 2018, computed as of the grant date, was $88.26, $80.95, and $62.51, respectively. During the years ended May 31, 2020, 2019 and 2018, the aggregate fair value of restricted stock and restricted stock units vested was $98 million, $44 million and $113 million, respectively, computed as of the date of vesting. As of May 31, 2020, the Company had $342 million of unrecognized compensation costs from restricted stock and restricted stock units, net of estimated forfeitures, to be recognized in *Cost of sales* or *Operating overhead expense*, as applicable, over a weighted average remaining period of 2.7 years.

NOTE 12 — 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 ESPPs, and restricted stock to purchase an additional 30.6 million, 17.5 million and 42.9 million shares of common stock outstanding for the fiscal years ended May 31, 2020, 2019 and 2018, respectively, because the options and restricted stock were anti-dilutive.

	YEAR ENDED MAY 31,		
(In millions, except per share data)	2020	2019	2018
Net income available to common stockholders	$ 2,539	$ 4,029	$ 1,933
Determination of shares:			
Weighted average common shares outstanding	1,558.8	1,579.7	1,623.8
Assumed conversion of dilutive stock options and awards	32.8	38.7	35.3
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**1,591.6**	**1,618.4**	**1,659.1**
Earnings per common share:			
Basic	$ 1.63	$ 2.55	$ 1.19
Diluted	$ 1.60	$ 2.49	$ 1.17

NOTE 13 — BENEFIT PLANS

The Company has a qualified 401(k) Savings and Profit Sharing Plan, in which all U.S. employees are able to participate. The Company matches a portion of employee contributions to the savings plan. Company contributions to the savings plan were $107 million, $90 million and $80 million and included in *Cost of sales* or *Operating overhead expense*, as applicable, for the years ended May 31, 2020, 2019 and 2018, respectively. The terms of the plan also allow for annual discretionary profit sharing contributions, as recommended by senior management and approved by the Board of Directors, to the accounts of eligible U.S. employees who work at least 1,000 hours in a year. For the fiscal year ended May 31, 2020, there were no profit sharing contributions made to the plan. Profit sharing contributions of $37 million and $59 million were made to the plan and included in *Cost of sales* or *Operating overhead expense*, as applicable, for the years ended May 31, 2019 and 2018, respectively.

The Company also has a Long-Term Incentive Plan (LTIP) adopted by the Board of Directors and approved by shareholders in September 1997 and later amended and approved in fiscal 2007 and fiscal 2012. The Company recognized $66 million, $83 million and $33 million of *Operating overhead expense* related to cash awards under the LTIP during the years ended May 31, 2020, 2019 and 2018, respectively.

The Company allows certain highly compensated employees and non-employee directors of the Company to defer compensation under a nonqualified deferred compensation plan. Deferred compensation plan liabilities were $725 million and $647 million at

May 31, 2020 and 2019, respectively, and primarily classified as non-current in *Deferred income taxes and other liabilities* on the Consolidated Balance Sheets.

The Company has pension plans in various countries worldwide. The pension plans are only available to local employees and are generally government mandated. The liability related to the unfunded pension liabilities of the plans was $79 million and $73 million at May 31, 2020 and 2019, respectively, and primarily classified as non-current in *Deferred income taxes and other liabilities* on the Consolidated Balance Sheets.

NOTE 14 — 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 U.S. GAAP. 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 and assessing, both at inception and on an ongoing basis, the effectiveness of the hedging relationships.

The majority of derivatives outstanding as of May 31, 2020 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Japanese Yen/U.S. Dollar and Chinese Yuan/U.S. Dollar currency pairs. All derivatives are recognized on the Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date.

The following tables present the fair values of derivative instruments included within the Consolidated Balance Sheets as of May 31, 2020 and 2019:

	DERIVATIVE ASSETS		
		MAY 31,	
(Dollars in millions)	**BALANCE SHEET LOCATION**	**2020**	**2019**
Derivatives formally designated as hedging instruments:			
Foreign exchange forwards and options	Prepaid expenses and other current assets	$ 43	$ 509
Foreign exchange forwards and options	Deferred income taxes and other assets	1	—
Total derivatives formally designated as hedging instruments		44	509
Derivatives not designated as hedging instruments:			
Foreign exchange forwards and options	Prepaid expenses and other current assets	48	102
Embedded derivatives	Prepaid expenses and other current assets	1	5
Foreign exchange forwards and options	Deferred income taxes and other assets	2	—
Embedded derivatives	Deferred income taxes and other assets	—	6
Total derivatives not designated as hedging instruments		51	113
TOTAL DERIVATIVE ASSETS		**$ 95**	**$ 622**

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(Dollars in millions)	BALANCE SHEET LOCATION	DERIVATIVE LIABILITIES MAY 31, 2020	2019
Derivatives formally designated as hedging instruments:			
Foreign exchange forwards and options	Accrued liabilities	$ 173	$ 5
Foreign exchange forwards and options	Deferred income taxes and other liabilities	17	—
Total derivatives formally designated as hedging instruments		190	5
Derivatives not designated as hedging instruments:			
Foreign exchange forwards and options	Accrued liabilities	15	46
Embedded derivatives	Accrued liabilities	2	1
Embedded derivatives	Deferred income taxes and other liabilities	—	2
Total derivatives not designated as hedging instruments		17	49
TOTAL DERIVATIVE LIABILITIES		**$ 207**	**$ 54**

The following table presents the amounts in the Consolidated Statements of Income in which the effects of cash flow hedges are recorded and the effects of cash flow hedge activity on these line items for the fiscal years ended May 31, 2020, 2019 and 2018:

	YEAR ENDED MAY 31,					
	2020		2019		2018	
(Dollars in millions)	TOTAL	AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY	TOTAL	AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY	TOTAL	AMOUNT OF GAIN (LOSS) ON CASH FLOW HEDGE ACTIVITY
Revenues	$ 37,403	$ (17)	$ 39,117	$ (5)	$ 36,397	$ 34
Cost of sales	21,162	364	21,643	53	20,441	(90)
Demand creation expense	3,592	(2)	3,753	—	3,577	1
Other (income) expense, net	139	181	(78)	35	66	(69)
Interest expense (income), net	89	(7)	49	(7)	54	(7)

The following tables present the amounts affecting the Consolidated Statements of Income for the years ended May 31, 2020, 2019 and 2018:

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(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS) ON DERIVATIVES(1) YEAR ENDED MAY 31, 2020	2019	2018	AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME(1) LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME	YEAR ENDED MAY 31, 2020	2019	2018
Derivatives designated as cash flow hedges:							
Foreign exchange forwards and options	$ 28	$ 14	$ 19	Revenues	$ (17)	$ (5)	$ 34
Foreign exchange forwards and options	283	405	(50)	Cost of sales	364	53	(90)
Foreign exchange forwards and options	1	2	1	Demand creation expense	(2)	—	1
Foreign exchange forwards and options	90	156	(19)	Other (income) expense, net	181	35	(69)
Interest rate swaps(2)	—	—	—	Interest expense (income), net	(7)	(7)	(7)
Total designated cash flow hedges	**$ 402**	**$ 577**	**$ (49)**		**$ 519**	**$ 76**	**$ (131)**

(1) *For the fiscal years ended May 31, 2020, 2019 and 2018, the amounts recorded in Other (income) expense, net as a result of the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.*

(2) *Gains and losses associated with terminated interest rate swaps, which were previously designated as cash flow hedges and recorded in Accumulated other comprehensive income (loss), will be released through Interest expense (income), net over the term of the issued debt.*

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES YEAR ENDED MAY 31, 2020	2019	2018	LOCATION OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES
Derivatives not designated as hedging instruments:				
Foreign exchange forwards and options	$ 76	$ 166	$ (57)	Other (income) expense, net
Embedded derivatives	(1)	7	(4)	Other (income) expense, net

CASH FLOW HEDGES

All changes in fair value of derivatives designated as cash flow hedges are recorded in *Accumulated other comprehensive income (loss)* until *Net income* is affected by the variability of cash flows of the hedged transaction. Effective hedge results are classified in the Consolidated Statements of Income in the same manner as the underlying exposure. Derivative instruments designated as cash flow hedges must be discontinued when it is no longer probable the forecasted hedged transaction will occur in the initially identified time period. The gains and losses associated with discontinued derivative instruments in *Accumulated other comprehensive income (loss)* will be recognized immediately in *Other (income) expense, net*, if it is probable the forecasted hedged transaction will not occur by the end of the initially identified time period or within an additional two-month period thereafter. In rare circumstances, the additional period of time may exceed two months due to extenuating circumstances related to the nature of the forecasted transaction that are outside the control or influence of the Company. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company accounts for the derivative as an undesignated instrument as discussed below.

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 the Company may elect to hedge in this manner include product cost exposures, non-functional currency denominated external and intercompany revenues, demand creation 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 products 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. NTC sales to a NIKE entity with a different functional currency result in 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 $8.1 billion as of May 31, 2020.

As of May 31, 2020, approximately $374 million of deferred net gains (net of tax) on both outstanding and matured derivatives in *Accumulated other comprehensive income (loss)* are 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 currently outstanding mature. As of May 31, 2020, the maximum term over which the Company hedges exposures to the variability of cash flows for its forecasted transactions was 24 months.

FAIR VALUE HEDGES

The Company has, in the past, been 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 U.S. GAAP. 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 Company had no interest rate swaps designated as fair value hedges as of May 31, 2020.

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 are reported in *Accumulated other comprehensive income (loss)* along with the foreign currency translation adjustments on those investments. The Company had no outstanding net investment hedges as of May 31, 2020.

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 Consolidated Balance Sheets and/or the embedded derivative contracts. These undesignated instruments are recorded at fair value as a derivative asset or liability on the 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 and/or embedded derivative contract. The total notional amount of outstanding undesignated derivative instruments was $4.1 billion as of May 31, 2020.

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. In addition, embedded derivative contracts are created when the Company enters 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. Embedded derivative contracts are treated as foreign currency forward contracts that are bifurcated from the related contract and recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in *Other (income) expense, net*, through the date the foreign currency fluctuations cease to exist.

At May 31, 2020, the total notional amount of embedded derivatives outstanding was approximately $281 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 May 31, 2020, the Company was in compliance with all credit risk-related contingent features, and had derivative instruments with such features in a net liability position of $137 million. However, no derivative instruments with credit risk-related contingent features in a net liability position were greater than $50 million by counterparty. Accordingly, the Company was not required to post any collateral as a result of these contingent features. Further, as of May 31, 2020, the Company had received no cash collateral from various counterparties to its derivative contracts. The Company considers the impact of the risk of counterparty default to be immaterial.

For additional information related to the Company's derivative financial instruments and collateral, refer to Note 6 — Fair Value Measurements.

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NOTE 15 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in *Accumulated other comprehensive income (loss)*, net of tax, were as follows:

(Dollars in millions)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT(1)	CASH FLOW HEDGES	NET INVESTMENT HEDGES(1)	OTHER	TOTAL
Balance at May 31, 2019	**$ (346)**	**$ 520**	**$ 115**	**$ (58)**	**$ 231**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications(2)	(149)	387	—	(8)	230
Reclassifications to net income of previously deferred (gains) losses(3)	1	(517)	—	(1)	(517)
Total other comprehensive income (loss)	(148)	(130)	—	(9)	(287)
Balance at May 31, 2020	**$ (494)**	**$ 390**	**$ 115**	**$ (67)**	**$ (56)**

(1) *The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $(15) million, $0 million, $1 million and $(14) million, respectively.*

(3) *Net of tax (benefit) expense of $0 million, $2 million, $0 million, $0 million and $2 million, respectively.*

(Dollars in millions)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT(1)	CASH FLOW HEDGES	NET INVESTMENT HEDGES(1)	OTHER	TOTAL
Balance at May 31, 2018	**$ (173)**	**$ 17**	**$ 115**	**$ (51)**	**$ (92)**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications(2)	(173)	573	—	10	410
Reclassifications to net income of previously deferred (gains) losses(3)	—	(70)	—	(17)	(87)
Total other comprehensive income (loss)	(173)	503	—	(7)	323
Balance at May 31, 2019	**$ (346)**	**$ 520**	**$ 115**	**$ (58)**	**$ 231**

(1) *The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $(4) million, $0 million, $1 million and $(3) million, respectively.*

(3) *Net of tax (benefit) expense of $0 million, $6 million, $0 million, $0 million and $6 million, respectively.*

The following table summarizes the reclassifications from *Accumulated other comprehensive income (loss)* to the Consolidated Statements of Income:

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME YEAR ENDED MAY 31, 2020	2019	LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME
Gains (losses) on foreign currency translation adjustment	$ (1)	$ —	Other (income) expense, net
Total before tax	(1)	—	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	**(1)**	**—**	
Gains (losses) on cash flow hedges:			
Foreign exchange forwards and options	$ (17)	(5)	Revenues
Foreign exchange forwards and options	364	53	Cost of sales
Foreign exchange forwards and options	(2)	—	Demand creation expense
Foreign exchange forwards and options	181	35	Other (income) expense, net
Interest rate swaps	(7)	(7)	Interest expense (income), net
Total before tax	519	76	
Tax (expense) benefit	(2)	(6)	
Gain (loss) net of tax	**517**	**70**	
Gains (losses) on other	1	17	Other (income) expense, net
Total before tax	1	17	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	**1**	**17**	
Total net gain (loss) reclassified for the period	**$ 517**	**$ 87**	

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NOTE 16 — REVENUES

DISAGGREGATION OF REVENUES

The following tables present the Company's revenues disaggregated by reportable operating segment, major product line and by distribution channel:

	YEAR ENDED MAY 31, 2020								
(Dollars in millions)	NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA	GREATER CHINA	ASIA PACIFIC & LATIN AMERICA	GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE	CORPORATE	TOTAL NIKE, INC.
Revenues by:									
Footwear	$ 9,329	$ 5,892	$ 4,635	$ 3,449	$ —	$23,305	$ 1,642	$ —	$ 24,947
Apparel	4,639	3,053	1,896	1,365	—	10,953	89	—	11,042
Equipment	516	402	148	214	—	1,280	25	—	1,305
Other	—	—	—	—	30	30	90	(11)	109
TOTAL REVENUES	**$14,484**	**$ 9,347**	**$ 6,679**	**$ 5,028**	**$ 30**	**$35,568**	**$ 1,846**	**$ (11)**	**$ 37,403**
Revenues by:									
Sales to Wholesale Customers	$ 9,371	$ 6,574	$ 3,803	$ 3,408	$ —	$23,156	$ 1,154	$ —	$ 24,310
Sales through Direct to Consumer	5,113	2,773	2,876	1,620	—	12,382	602	—	12,984
Other	—	—	—	—	30	30	90	(11)	109
TOTAL REVENUES	**$14,484**	**$ 9,347**	**$ 6,679**	**$ 5,028**	**$ 30**	**$35,568**	**$ 1,846**	**$ (11)**	**$ 37,403**

	YEAR ENDED MAY 31, 2019								
(Dollars in millions)	NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA	GREATER CHINA	ASIA PACIFIC & LATIN AMERICA	GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE	CORPORATE	TOTAL NIKE, INC.
Revenues by:									
Footwear	$10,045	$ 6,293	$ 4,262	$ 3,622	$ —	$24,222	$ 1,658	$ —	$ 25,880
Apparel	5,260	3,087	1,808	1,395	—	11,550	118	—	11,668
Equipment	597	432	138	237	—	1,404	24	—	1,428
Other	—	—	—	—	42	42	106	(7)	141
TOTAL REVENUES	**$15,902**	**$ 9,812**	**$ 6,208**	**$ 5,254**	**$ 42**	**$37,218**	**$ 1,906**	**$ (7)**	**$ 39,117**
Revenues by:									
Sales to Wholesale Customers	$10,875	$ 7,076	$ 3,726	$ 3,746	$ —	$25,423	$ 1,247	$ —	$ 26,670
Sales through Direct to Consumer	5,027	2,736	2,482	1,508	—	11,753	553	—	12,306
Other	—	—	—	—	42	42	106	(7)	141
TOTAL REVENUES	**$15,902**	**$ 9,812**	**$ 6,208**	**$ 5,254**	**$ 42**	**$37,218**	**$ 1,906**	**$ (7)**	**$ 39,117**

For the fiscal years ended May 31, 2020 and 2019, Other revenues for Global Brand Divisions and Converse were primarily attributable to licensing businesses. For the fiscal years ended May 31, 2020 and 2019, Other revenues for Corporate primarily consisted 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 the Company's central foreign exchange risk management program.

As of May 31, 2020 and 2019, the Company did not have any contract assets and had an immaterial amount of contract liabilities recorded in *Accrued Liabilities* on the Consolidated Balance Sheets.

SALES-RELATED RESERVES

At May 31, 2020 and May 31, 2019, the Company's sales-related reserve balance, which includes returns, post-invoice sales discounts and miscellaneous claims, was $1,178 million and $1,218 million, respectively, recorded in *Accrued liabilities* on the Consolidated Balance Sheets. The estimated cost of inventory for expected product returns was $313 million and $410 million as of May 31, 2020 and May 31, 2019, respectively, and was recorded in *Prepaid expenses and other current assets* on the Consolidated Balance Sheets.

MAJOR CUSTOMERS

No customer accounted for 10% or more of the Company's consolidated net *Revenues* during the fiscal years ended May 31, 2020, 2019 and 2018.

NOTE 17 — OPERATING SEGMENTS AND RELATED INFORMATION

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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE and Jordan brands, with the results for the Hurley brand, prior to its divestiture, included in North America. Refer to Note 20 — Acquisitions and Divestitures for information regarding the divestiture of the Company's wholly-owned subsidiary, Hurley, and the planned transition of NIKE Brand businesses in certain countries within APLA to third-party distributors.

The Company's NIKE Direct operations are managed within each NIKE Brand geographic operating segment. Converse is also a reportable segment for the Company, and operates in one industry: the design, marketing, licensing and selling of athletic lifestyle 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 and operating overhead expense, including product creation and design expenses that are centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology.

Corporate consists primarily 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. For the fiscal year ended May 31, 2020, Corporate includes the non-recurring impairment charge, recognized as a result of the Company's decision to transition its operations in Brazil, Argentina, Chile and Uruguay to third-party distributors. This charge primarily reflects the anticipated release of associated non-cash cumulative foreign currency translation losses. For more information regarding this charge, refer to Note 20 — Acquisitions and Divestitures.

The primary financial measure used by the Company to evaluate performance of individual operating segments is earnings before interest and taxes (EBIT), which represents *Net income* before *Interest expense (income), net* and *Income tax expense* in the Consolidated Statements of Income.

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 to Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the 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.

(Dollars in millions)	YEAR ENDED MAY 31, 2020	2019	2018
REVENUES			
North America	$ 14,484	$ 15,902	$ 14,855
Europe, Middle East & Africa	9,347	9,812	9,242
Greater China	6,679	6,208	5,134
Asia Pacific & Latin America	5,028	5,254	5,166
Global Brand Divisions	30	42	88
Total NIKE Brand	35,568	37,218	34,485
Converse	1,846	1,906	1,886
Corporate	(11)	(7)	26
TOTAL NIKE, INC. REVENUES	**$ 37,403**	**$ 39,117**	**$ 36,397**
EARNINGS BEFORE INTEREST AND TAXES			
North America	$ 2,899	$ 3,925	$ 3,600
Europe, Middle East & Africa	1,541	1,995	1,587
Greater China	2,490	2,376	1,807
Asia Pacific & Latin America	1,184	1,323	1,189
Global Brand Divisions	(3,468)	(3,262)	(2,658)
Converse	297	303	310
Corporate	(1,967)	(1,810)	(1,456)
Interest expense (income), net	89	49	54
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 2,887**	**$ 4,801**	**$ 4,325**
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT			
North America	$ 110	$ 117	$ 196
Europe, Middle East & Africa	139	233	240
Greater China	28	49	76
Asia Pacific & Latin America	41	47	49
Global Brand Divisions	438	278	286
Total NIKE Brand	756	724	847
Converse	12	18	22
Corporate	356	333	325
TOTAL ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT	**$ 1,124**	**$ 1,075**	**$ 1,194**
DEPRECIATION			
North America	$ 148	$ 149	$ 160
Europe, Middle East & Africa	132	111	116
Greater China	44	50	56
Asia Pacific & Latin America	46	53	55
Global Brand Divisions	214	195	217
Total NIKE Brand	584	558	604
Converse	25	31	33
Corporate	112	116	110
TOTAL DEPRECIATION	**$ 721**	**$ 705**	**$ 747**

(Dollars in millions)	AS OF MAY 31, 2020	2019
ACCOUNTS RECEIVABLE, NET		
North America	$ 1,020	$ 1,718
Europe, Middle East & Africa	712	1,164
Greater China	321	245
Asia Pacific & Latin America(1)	425	771
Global Brand Divisions	65	105
Total NIKE Brand	2,543	4,003
Converse	149	243
Corporate	57	26
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 2,749**	**$ 4,272**
INVENTORIES		
North America	$ 3,077	$ 2,328
Europe, Middle East & Africa	2,070	1,390
Greater China	882	693
Asia Pacific & Latin America(1)	770	694
Global Brand Divisions	137	126
Total NIKE Brand	6,936	5,231
Converse	341	269
Corporate	90	122
TOTAL INVENTORIES	**$ 7,367**	**$ 5,622**
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	$ 645	$ 814
Europe, Middle East & Africa	885	929
Greater China	214	237
Asia Pacific & Latin America(1)	296	326
Global Brand Divisions	830	665
Total NIKE Brand	2,870	2,971
Converse	80	100
Corporate	1,916	1,673
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,866**	**$ 4,744**

(1) Excludes assets held-for-sale as of May 31, 2020. See Note 20 — Acquisitions and Divestitures for additional information.

REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREA

After allocation of revenues for Global Brand Divisions, Converse and Corporate to geographical areas based on the location where the sales originated, revenues by geographical area are essentially the same as reported above for the NIKE Brand operating segments with the exception of the United States. Revenues derived in the United States were $14,625 million, $16,091 million and $15,314 million for the fiscal years ended May 31, 2020, 2019 and 2018, respectively.

The Company's largest concentrations of long-lived assets primarily consist of the Company's corporate headquarters, retail locations and distribution facilities in the United States and China, as well as distribution facilities in Belgium. Long-lived assets attributable to operations in these countries, which primarily consists of property, plant and equipment, net, as well as operating lease right-of-use assets, net in conjunction with the adoption of Topic 842 in fiscal 2020, were as follows:

(Dollars in millions)	MAY 31, 2020(1)	2019

United States	$ 5,114	$ 3,174
Belgium	606	618
China	457	242

(1) Includes operating lease right-of-use assets, net in conjunction with the adoption of Topic 842. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous accounting guidance in effect for those periods.

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NOTE 18 — COMMITMENTS AND CONTINGENCIES

As of May 31, 2020 and 2019, the Company had bank guarantees and letters of credit outstanding totaling $239 million and $215 million, respectively, issued primarily for real estate agreements, self-insurance programs and other general business obligations.

In connection with various contracts and agreements, the Company provides routine indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where the Company is acting as the guarantor. Currently, the Company has several such agreements in place. However, based on the Company's historical experience and the estimated probability of future loss, the Company has determined the fair value of such indemnification is not material to the Company's financial position or results of operations.

In the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. While the Company cannot predict the outcome of its pending legal matters with certainty, the Company does not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on the Company's results of operations, financial position or cash flows.

NOTE 19 — LEASES

Lease expense is recognized in *Cost of sales* or *Operating overhead expense* within the Consolidated Statements of Income, based on the underlying nature of the leased asset. For the fiscal year ended May 31, 2020, lease expense primarily consisted of operating lease costs of $569 million, along with $337 million primarily related to variable lease costs which includes an immaterial amount of short-term lease costs. As of and for the fiscal year ended May 31, 2020, finance leases were not a material component of the Company's lease portfolio.

Amounts of future undiscounted cash flows related to operating lease payments over the lease term are as follows and are reconciled to the present value of the operating lease liabilities as recorded on the Consolidated Balance Sheets:

(Dollars in millions)		AS OF MAY 31, 2020(1)
Fiscal 2021	$	550
Fiscal 2022		514
Fiscal 2023		456
Fiscal 2024		416
Fiscal 2025		374
Thereafter		1,474
Total undiscounted future cash flows related to lease payments	$	3,784
Less: Interest		426
Present value of lease liabilities	$	3,358

(1) Excludes $67 million of future operating lease payments for lease agreements signed but not yet commenced.

In accordance with Topic 840, rent expense, excluding executory costs, was $829 million and $820 million for the fiscal years ended May 31, 2019 and 2018, respectively. Amounts of minimum future annual commitments under non-cancelable operating and capital leases in accordance with Topic 840 were as follows:

	AS OF MAY 31, 2019		
(Dollars in millions)	OPERATING LEASES	CAPITAL LEASES AND	TOTAL

		OTHER FINANCING OBLIGATIONS[1]	
Fiscal 2020	$ 553	$ 32	$ 585
Fiscal 2021	513	34	547
Fiscal 2022	441	40	481
Fiscal 2023	386	37	423
Fiscal 2024	345	34	379
Thereafter	1,494	197	1,691
TOTAL	**$ 3,732**	**$ 374**	**$ 4,106**

(1) Capital leases and other financing obligations include payments related to build-to-suit lease arrangements.

The following table includes the weighted average remaining lease terms, in years, and the weighted average discount rate used to calculate the present value of operating lease liabilities:

	AS OF MAY 31, 2020
Weighted-average remaining lease term (years)	8.7
Weighted-average discount rate	2.4 %

The following table includes supplemental cash and non-cash information related to operating leases:

(Dollars in millions)	FISCAL YEAR ENDED MAY 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 532
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities(1)	$ 705

(1) Excludes the amount initially capitalized in conjunction with the adoption of Topic 842.

NOTE 20 — ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

During fiscal 2020, 2019 and 2018, the Company made multiple acquisitions focused on gaining new capabilities to fuel its Consumer Direct Offense strategy, serving consumers personally at a global scale. The impact of acquisitions, individually and in the aggregate, was not considered material to the Company's Consolidated Financial Statements.

DIVESTITURES

During the third quarter of fiscal 2020, as a result of the Company's decision to transition its wholesale and direct to consumer operating model in certain countries within its APLA operating segment, the Company signed definitive agreements to sell its NIKE Brand businesses in Brazil, Argentina, Chile and Uruguay to third-party distributors. Specifically, NIKE entered into agreements to sell its operations in Argentina, Chile and Uruguay to Grupo Axo and to sell substantially all of its operations in Brazil to Grupo SBF S.A., through its wholly-owned subsidiary. The Company will retain a small operation in Brazil focused on certain sports marketing assets, local manufacturing and Converse. These transactions are expected to close in the first half of fiscal 2021, with Grupo SBF S.A.'s transaction subject to Brazil Antitrust Authority approvals.

As a result of this decision, beginning in the third quarter of fiscal 2020, the related assets and liabilities of these entities were classified as held-for-sale and remain as such on the Consolidated Balance Sheets as of May 31, 2020, which consisted of the following:

- Assets of $506 million, primarily consisting of $264 million of *Inventories* and $138 million of *Accounts receivable, net* which were reclassified to *Prepaid expenses and other current assets* on the Company's Consolidated Balance Sheets; and

- Liabilities of $146 million, primarily consisting of $85 million of *Accrued liabilities,* as well as $49 million of *Accounts Payable,* which was reclassified to *Accrued liabilities* on the Company's Consolidated Balance Sheets.

As a result of meeting the criteria for held-for-sale classification, the Company recognized a non-recurring impairment charge of $405 million within *Other (income) expense, net* on the Consolidated Statements of Income, classified within Corporate, and a corresponding allowance within *Accrued Liabilities* on the Consolidated Balance Sheets. This charge was primarily due to the anticipated release of non-cash cumulative foreign currency translation losses, which were included as part of the carrying value of the Argentina, Chile and Uruguay disposal groups when measuring for impairment. These losses will be reclassified from *Accumulated other comprehensive income (loss)* to *Net income* upon closure of the transaction. For more information see Note 6 — Fair Value Measurements.

On October 29, 2019, the Company signed a definitive agreement to sell the assets and liabilities of its wholly-owned subsidiary brand, Hurley. The transaction closed on December 6, 2019, and the impacts of the divestiture are not considered material to the Company.

NOTE 21 — SUBSEQUENT EVENTS

In June 2020, the Company announced a new digitally empowered phase of its Consumer Direct Offense, the Consumer Direct Acceleration. As a result, on July 22, 2020, management announced a series of leadership and operating model changes to streamline and speed up strategic execution for the Company. The changes are expected to lead to a net loss of jobs, resulting in pre-tax, one-time employee termination costs of approximately $200 million to $250 million, which is expected to be incurred primarily during the first half of fiscal 2021, in the form of cash expenditures.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change of accountants nor any disagreements with accountants on any matter of accounting principles or practices or financial statement disclosure required to be reported under this Item.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide reasonable assurance 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 May 31, 2020.

“Management's Annual Report on Internal Control Over Financial Reporting” is included in Item 8 of this Report.

We are continuing 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 these transformation initiatives.

There have not been any 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.

ITEM 9B. OTHER INFORMATION

No disclosure is required under this item.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 of Regulation S-K regarding directors is included under "NIKE, Inc. Board of Directors" in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding executive officers is included under "Information about our Executive Officers" in Item 1 of this Report. The information required by Item 406 of Regulation S-K is included under "Corporate Governance — Board Structure and Responsibilities — Code of Conduct" in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K regarding the Audit & Finance Committee of the Board of Directors is included under "Corporate Governance — Board Structure and Responsibilities — Board Committees" in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K regarding executive compensation is included under "Corporate Governance — Director Compensation for Fiscal 2020," "Compensation Discussion and Analysis," and "Stock Ownership Information — Transactions with Related Persons — Compensation Committee Interlocks and Insider Participation," in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 201(d) of Regulation S-K is included under "Compensation Discussion and Analysis — Executive Compensation Tables — Equity Compensation Plan Information" in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 403 of Regulation S-K is included under "Stock Ownership Information — Stock Holdings of Certain Owners and Management" in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is included under “Stock Ownership Information — Transactions with Related Persons” and “Corporate Governance — Individual Board Skills Matrix — Director Independence” in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is included under “Audit Matters — Ratification of Appointment of Independent Registered Public Accounting Firm” in the definitive Proxy Statement for our 2020 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

		FORM 10-K PAGE NO.
1.	**Financial Statements:**	
	Report of Independent Registered Public Accounting Firm	54
	Consolidated Statements of Income for each of the three years ended May 31, 2020, May 31, 2019 and May 31, 2018	56
	Consolidated Statements of Comprehensive Income for each of the three years ended May 31, 2020, May 31, 2019 and May 31, 2018	57
	Consolidated Balance Sheets at May 31, 2020 and May 31, 2019	58
	Consolidated Statements of Cash Flows for each of the three years ended May 31, 2020, May 31, 2019 and May 31, 2018	59
	Consolidated Statements of Shareholders' Equity for each of the three years ended May 31, 2020, May 31, 2019 and May 31, 2018	60
	Notes to Consolidated Financial Statements	61
2.	**Financial Statement Schedule:**	
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	All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.	

3.	**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	Fifth Restated Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 19, 2020).
4.1	Restated Articles of Incorporation, as amended (see Exhibit 3.1).
4.2	Fifth Restated Bylaws, as amended (see Exhibit 3.2).
4.3	Indenture dated as of April 26, 2013, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed April 26, 2013).
4.4	Second Supplemental Indenture, dated as of October 29, 2015, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 3.875% Notes due 2045 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 29, 2015).
4.5	Third Supplemental Indenture, dated as of October 21, 2016, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.375% Notes due 2026 and form of 3.375% Notes due 2046 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 21, 2016).
4.6	Fourth Supplemental Indenture, dated as of March 27, 2020, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.400% Notes due 2025, form of 2.750% Notes due 2027, form of 2.850% Notes due 2030, form of 3.250% Notes due 2040 and form of 3.375% Notes due 2050 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed March 27, 2020).
4.7	Description of Registrants Securities (incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2019).
10.1	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 21, 2005).*

10.2	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors after May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2010).*
10.3	Form of Non-Statutory Stock Option Agreement for options granted to executives prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.4	Form of Restricted Stock Agreement for non-employee directors under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*

10.5	Form of Non-Statutory Stock Option Agreement for options granted to executives under the Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*
10.6	Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.7	NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.8	NIKE, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.9	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective April 1, 2013) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2013).*
10.10	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective June 1, 2004) (applicable to amounts deferred before January 1, 2005) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004).*
10.11	Amendment No. 1 effective January 1, 2008 to the NIKE, Inc. Deferred Compensation Plan (June 1, 2004 Restatement) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.12	NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008).*
10.13	Amended and Restated Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated July 24, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2008).*
10.14	Form of Restricted Stock Agreement under the Stock Incentive Plan for awards after May 31, 2010 (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.15	Form of Restricted Stock Unit Agreement under the Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*
10.16	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and its executive officers (other than Mark G. Parker and John J. Donahoe II) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2020).*
10.17	Policy for Recoupment of Incentive Compensation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 20, 2010).*
10.18	Credit Agreement dated as of August 28, 2015 among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citibank N.A., as Syndication Agent, Deutsche Bank A.G. New York Branch and HSBC Bank USA, National Association, as Co-Documentation Agents, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 2, 2015).
10.19	Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.20	Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.21	Form of Discretionary Performance Award Agreement (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2018).*
10.22	NIKE, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement filed July 25, 2017).*
10.23	Offer Letter between NIKE, Inc. and John J. Donahoe II (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.24	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and John J. Donahoe II (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.25	Form of Performance-Based Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed October 22, 2019).
10.26	Letter Agreement between NIKE, Inc. and Mark G. Parker (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed October 22, 2019).*
10.27	Credit Agreement, dated as of April 6, 2020, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, and the other Banks named therein (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 29, 2020).
10.28	NIKE, Inc. Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.29	

	NIKE, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.30	Form of Non-Statutory Stock Option Agreement under the NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 19, 2020).*
10.31	Form of Restricted Stock Unit Agreement under the NIKE, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 19, 2020).*

10.32	Credit Agreement dated as of August 16, 2019, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citibank N.A., as Syndication Agent, Deutsche Bank Securities, Inc., HSBC Bank USA, National Association and JPMorgan Chase, N.A., as Co-Documentation Agents, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 20, 2019).
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (included within this Annual Report on Form 10-K).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* *Management contract or compensatory plan or arrangement.*

The Exhibits filed herewith do not include certain instruments with respect to long-term debt of NIKE and its subsidiaries, inasmuch as the total amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of NIKE and its subsidiaries on a consolidated basis. NIKE agrees, pursuant to Item 601(b)(4)(iii) of Regulation S-K, that it will furnish a copy of any such instrument to the SEC upon request.

Upon written request to Investor Relations, NIKE, Inc., One Bowerman Drive, Beaverton, Oregon 97005-6453, NIKE will furnish shareholders with a copy of any Exhibit upon payment of $0.10 per page, which represents our reasonable expenses in furnishing Exhibits.

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(Dollars in millions)	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS(1)	WRITE-OFFS, NET	BALANCE AT END OF PERIOD
Sales returns reserve					
For the fiscal year ended May 31, 2018	$ 343	$ 640	$ 5	$ (658)	$ 330
For the fiscal year ended May 31, 2019(2)	734	1,959	(30)	(1,820)	843
For the fiscal year ended May 31, 2020	843	1,941	(31)	(2,071)	682

(1) Amounts included in this column primarily relate to foreign currency translation.

(2) As a result of the adoption of ASC Topic 606 during the first quarter of fiscal 2019, an asset for the estimated cost of inventory for expected products returns is now recognized separately from the liability for sales returns reserves, which is presented above.

ITEM 16. FORM 10-K SUMMARY

None.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 033-63995, 333-63581, 333-63583, 333-68864, 333-68886, 333-71660, 333-104822, 333-117059, 333-133360, 333-164248, 333-171647, 333-173727, 333-208900 and 333-215439) and the Registration Statement on Form S-3 (No. 333-232770) of NIKE, Inc. of our report dated July 24, 2020 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 24, 2020

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.	
By:	/s/ JOHN J. DONAHOE II **John J. Donahoe II** President and Chief Executive Officer
Date:	July 24, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	**TITLE**	**DATE**
PRINCIPAL EXECUTIVE OFFICER AND DIRECTOR:		
/s/ JOHN J. DONAHOE II **John J. Donahoe II**	*President and Chief Executive Officer*	July 24, 2020
PRINCIPAL FINANCIAL OFFICER:		
/s/ MATTHEW FRIEND **Matthew Friend**	*Executive Vice President and Chief Financial Officer*	July 24, 2020
PRINCIPAL ACCOUNTING OFFICER:		
/s/ CHRIS L. ABSTON **Chris L. Abston**	*Vice President and Corporate Controller*	July 24, 2020
DIRECTORS:		
/s/ MARK G. PARKER **Mark G. Parker**	*Director, Chairman of the Board*	July 24, 2020
/s/ CATHLEEN A. BENKO **Cathleen A. Benko**	*Director*	July 24, 2020
/s/ ELIZABETH J. COMSTOCK **Elizabeth J. Comstock**	*Director*	July 24, 2020
/s/ JOHN G. CONNORS **John G. Connors**	*Director*	July 24, 2020
/s/ TIMOTHY D. COOK **Timothy D. Cook**	*Director*	July 24, 2020
/s/ THASUNDA B. DUCKETT **Thasunda B. Duckett**	*Director*	July 24, 2020
/s/ ALAN B. GRAF, JR. **Alan B. Graf, Jr.**	*Director*	July 24, 2020
/s/ PETER B. HENRY **Peter B. Henry**	*Director*	July 24, 2020
/s/ TRAVIS A. KNIGHT **Travis A. Knight**	*Director*	July 24, 2020
/s/ MICHELLE A. PELUSO **Michelle A. Peluso**	*Director*	July 24, 2020
/s/ JOHN W. ROGERS, JR. **John W. Rogers, Jr.**	*Director*	July 24, 2020

10-K 1 nke-531201910k.htm 10-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED MAY 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO .

Commission File No. 1-10635

nikelogoorange.jpg

NIKE, Inc.

(Exact name of Registrant as specified in its charter)

OREGON	**93-0584541**
(State or other jurisdiction of incorporation)	*(IRS Employer Identification No.)*
One Bowerman Drive, Beaverton, Oregon	**97005-6453**
(Address of principal executive offices)	*(Zip Code)*

(503) 671-6453

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Class B Common Stock	**NKE**	**New York Stock Exchange**
(Title of each class)	*(Trading symbol)*	*(Name of each exchange on which registered)*

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

Indicate by check mark:	**YES**	**NO**
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☑	☐
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☑
• 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.	☑	☐
• whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).	☑	☐
• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.		
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐		
• if an emerging growth company, if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	☐	
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	☐	☑

As of November 30, 2018, the aggregate market values of the Registrant's Common Stock held by non-affiliates were:

Class A	$	5,260,259,370
Class B		94,690,612,760
	$	99,950,872,130

As of July 19, 2019, the number of shares of the Registrant's Common Stock outstanding were:

Class A	315,024,752
Class B	1,251,863,621
	1,566,888,373

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on September 19, 2019 are incorporated by reference into Part III of this Report.

NIKE, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. BUSINESS

GENERAL

NIKE, Inc. was incorporated in 1967 under the laws of the State of Oregon. As used in this report, the terms "we," "us," "NIKE" and the "Company" refer to NIKE, Inc. and its predecessors, subsidiaries and affiliates, collectively, unless the context indicates otherwise. Our NIKE digital commerce website is located at *www.nike.com*. On our NIKE corporate website, located at *investors.nike.com*, we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the United States Securities and Exchange Commission (the "SEC"): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended. Our definitive Proxy Statements are also posted on our corporate website. All such filings on our corporate website are available free of charge. Copies of these filings are also available on the SEC's website (*www.sec.gov*). Also available on our corporate website are the charters of the committees of our Board of Directors, as well as our corporate governance guidelines and code of ethics; copies of any of these documents will be provided in print to any shareholder who submits a request in writing to NIKE Investor Relations, One Bowerman Drive, Beaverton, Oregon 97005-6453.

Our principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE-owned retail stores and through digital platforms (which we refer to collectively as our "NIKE Direct" operations), to retail accounts and a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Virtually all of our products are manufactured by independent contractors. Nearly all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.

PRODUCTS

We focus our NIKE Brand product offerings in six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). We also market products designed for kids, as well as for other athletic and recreational uses such as American football, baseball, cricket, golf, lacrosse, skateboarding, tennis, volleyball, walking, wrestling and other outdoor activities.

NIKE's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. We place considerable emphasis on innovation and high-quality construction in the development and manufacturing of our products. Sportswear, Running and the Jordan Brand are currently our top-selling footwear categories and we expect them to continue to lead in footwear sales.

We also sell sports apparel covering the above-mentioned categories, which feature the same trademarks and are sold predominantly through the same marketing and distribution channels as athletic footwear. Our sports apparel, similar to our athletic footwear products, is designed primarily for athletic use and exemplifies our commitment to innovation and high-quality construction. Sportswear, Training and Running are currently our top-selling apparel categories and we expect them to continue to lead in apparel sales. We often market footwear, apparel and accessories in "collections" of similar use or by category. We also market apparel with licensed college and professional team and league logos.

We sell a line of performance equipment and accessories under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, digital devices, bats, gloves, protective equipment and other equipment designed for sports activities. We also sell small amounts of various plastic products to other manufacturers through our wholly-owned subsidiary, NIKE IHM, Inc., doing business as Air Manufacturing Innovation.

Our Jordan Brand designs, distributes and licenses athletic and casual footwear, apparel and accessories predominantly focused on basketball using the Jumpman trademark. Sales and operating results for Jordan Brand products are reported within the respective NIKE Brand geographic operating segments.

One of our wholly-owned subsidiary brands, Converse, headquartered in Boston, Massachusetts, designs, distributes and licenses casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

Another of our wholly-owned subsidiary brands, Hurley, headquartered in Costa Mesa, California, designs and distributes a line of action sports and youth lifestyle apparel and accessories under the Hurley trademark. Sales and operating results for Hurley products are included within the NIKE Brand's North America geographic operating segment.

In addition to the products we sell to our wholesale customers and directly to consumers through our NIKE Direct operations, we have also entered into license agreements that permit unaffiliated parties to manufacture and sell, using NIKE-owned trademarks, certain apparel, digital devices and applications and other equipment designed for sports activities.

SALES AND MARKETING

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third quarters. However, the mix of product sales may vary considerably as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment, as well as other macroeconomic, operating and logistics-related factors.

Because NIKE is a consumer products company, the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. We must, therefore, respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories and influencing sports and fitness preferences through extensive marketing. Failure to respond in a timely and adequate manner could have a material adverse effect on our sales and profitability. This is a continuing risk. Refer to Item 1A. Risk Factors.

We report our NIKE Brand operations based on our internal geographic organization. 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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE, Jordan and Hurley brands. Sales through our NIKE Direct operations are managed within each geographic operating segment.

Converse is also a reportable operating segment and operates predominately in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. Converse direct to consumer operations, including digital commerce, are reported within the Converse operating segment results.

UNITED STATES MARKET

For fiscal 2019, NIKE Brand and Converse sales in the United States accounted for approximately 41% of total revenues, compared to 42% and 46% for fiscal 2018 and fiscal 2017, respectively. We sell our NIKE Brand, Jordan Brand, Hurley and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops and other retail accounts. In the United States, we utilize NIKE sales offices to solicit such sales. During fiscal 2019, our three largest United States customers accounted for approximately 24% of sales in the United States.

Our NIKE Direct and Converse direct to consumer operations sell NIKE Brand, Jordan Brand, Hurley and Converse products to consumers through various digital platforms. In addition, our NIKE Direct and Converse direct to consumer operations sell through the following number of retail stores in the United States:

U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	217
NIKE Brand in-line stores (including employee-only stores)	29
Converse stores (including factory stores)	109
Hurley stores (including factory and employee-only stores)	29
TOTAL	**384**

In the United States, NIKE has six significant distribution centers. Four are located in Memphis, Tennessee, two of which are owned and two of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. NIKE Brand apparel and equipment are also shipped from our Foothill Ranch, California distribution center, which we lease. Smaller leased and third-party leased and operated distribution facilities are located in various parts of the United States.

INTERNATIONAL MARKETS

For fiscal 2019, non-U.S. NIKE Brand and Converse sales accounted for approximately 59% of total revenues, compared to 58% and 54% for fiscal 2018 and fiscal 2017, respectively. We sell our products to retail accounts, through our own NIKE Direct operations and through a mix of independent distributors, licensees and sales representatives around the world. We sell to thousands of retail accounts and ship products from 67 distribution centers outside of the United States. During fiscal 2019, NIKE's three largest customers outside of the United States accounted for approximately 14% of total non-U.S. sales.

In addition to NIKE and Converse owned digital commerce platforms in over 45 countries, our NIKE Direct and Converse direct to consumer businesses operate the following number of retail stores outside the United States:

NON-U.S. RETAIL STORES	NUMBER
NIKE Brand factory stores	648
NIKE Brand in-line stores (including employee-only stores)	57
Converse stores (including factory stores)	63
TOTAL	**768**

International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Macau, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Panama, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

SIGNIFICANT CUSTOMER

No customer accounted for 10% or more of our worldwide net revenues during fiscal 2019.

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PRODUCT RESEARCH, DESIGN AND DEVELOPMENT

We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while reducing waste.

In addition to our own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, we also utilize research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts who consult with us and review designs, materials, concepts for product and manufacturing process improvements and compliance with product safety regulations around the world. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

As we continue to develop new technologies, we are simultaneously focused on the design of innovative products incorporating such technologies throughout our product categories. Using market intelligence and research, our various design teams identify opportunities to leverage new technologies in existing categories responding to consumer preferences. The proliferation of NIKE Air, Lunar, Zoom, Free, Flywire, Dri-Fit, Flyknit, Flyweave, ZoomX, React, Adaptive and NIKE+ technologies, among others, throughout our Running, NIKE Basketball, Jordan Brand, Football (Soccer), Training and Sportswear categories typifies our dedication to designing innovative products.

MANUFACTURING

We are supplied by 112 footwear factories located in 12 countries. The largest single footwear factory accounted for approximately 9% of total fiscal 2019 NIKE Brand footwear production. Virtually all of our footwear is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2019, contract factories in Vietnam, China and Indonesia manufactured approximately 49%, 23% and 21% of total NIKE Brand footwear, respectively. We also have manufacturing agreements with independent contract manufacturers in Argentina and India to manufacture footwear for sale primarily within those countries. For fiscal 2019, four footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 61% of NIKE Brand footwear production.

We are supplied by 334 apparel factories located in 36 countries. The largest single apparel factory accounted for approximately 14% of total fiscal 2019 NIKE Brand apparel production. Virtually all of our apparel is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2019, contract factories in China, Vietnam and Thailand produced approximately 27%, 22% and 10% of total NIKE Brand apparel, respectively. For fiscal 2019, one apparel contract manufacturer accounted for more than 10% of apparel production, and the top five contract manufacturers in the aggregate accounted for approximately 49% of NIKE Brand apparel production.

The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and canvas, as well as polyurethane films used to make NIKE Air-Sole cushioning components. During fiscal 2019, Air Manufacturing Innovation, a wholly-owned subsidiary, with facilities near Beaverton, Oregon and in St. Charles, Missouri, as well as independent contractors in China and Vietnam, were our suppliers of the Air-Sole cushioning components used in footwear. The principal materials used in our apparel products are natural and synthetic fabrics and threads (both virgin and recycled); specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow; and plastic and metal hardware. NIKE's independent contractors and suppliers buy raw materials for the manufacturing of our footwear, apparel and equipment products. Most raw materials are available and purchased by those independent contractors and suppliers in the countries where manufacturing takes place. NIKE's independent contract manufacturers and suppliers have thus far experienced little difficulty in satisfying raw material requirements for the production of our products.

Since 1972, Sojitz Corporation of America ("Sojitz America"), a large Japanese trading company and the sole owner of our redeemable preferred stock, has performed import-export financing services for us. During fiscal 2019, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Brazil, Canada, India, South Africa and Uruguay, excluding products produced and sold in the same country. Approximately 5% of NIKE Brand sales occurred in those countries. Any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in those markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability. However, we believe that any such disruption would be short-term in duration due to the ready availability of alternative sources of financing at competitive rates.

INTERNATIONAL OPERATIONS AND TRADE

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as the implementation of, or potential changes in, foreign and domestic trade policies, increases in import duties, anti-dumping measures, quotas, safeguard measures, trade restrictions, restrictions on the transfer of funds and, in certain parts of the world, political instability and terrorism. We have not, to date, been materially affected by any such risk, but cannot predict the likelihood of such material effects occurring in the future.

In recent years, uncertain global and regional economic and political conditions have affected international trade and increased protectionist actions around the world. These trends are affecting many global manufacturing and service sectors, and the footwear and apparel industries, as a whole, are not immune. Companies in our industry are facing trade protectionism in many different regions, and in nearly all cases we are working together with industry groups to address trade issues and reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, protectionist measures have resulted in increases in the cost of our products, and additional measures, if implemented, could adversely affect sales and/or profitability for NIKE, as well as the imported footwear and apparel industry as a whole.

We monitor protectionist trends and developments throughout the world that may materially impact our industry, and we engage in administrative and judicial processes to mitigate trade restrictions. We are actively monitoring actions that may result in additional anti-dumping measures and could affect our industry. We are also monitoring for and advocating against other impediments that may limit or delay customs clearance for imports of footwear, apparel and equipment. NIKE also advocates for trade liberalization for footwear and apparel in a number of regional and bilateral free trade agreements. Changes in U.S. trade policies, including new and potential tariffs or penalties on imported goods, may negatively affect U.S. corporations with production activities outside the U.S., including NIKE. There have also been discussions and commentary regarding retaliatory actions by countries affected by the new tariffs and other changes in U.S. trade policy, and certain foreign governments have instituted or are considering imposing retaliatory measures on certain U.S. goods, which could negatively affect U.S. corporations with business operations and/or consumer markets in those countries. Depending on the extent that certain new or proposed reforms are implemented by the U.S. government and the manner in which foreign governments respond to such reforms, it may become necessary for us to change the way we conduct business, which may adversely affect our results of operations. In addition, with respect to proposed trade restrictions targeting China, which represents an important sourcing country and consumer market for us, we are working with a broad coalition of global businesses and trade associations representing a wide variety of sectors to help ensure that any legislation enacted and implemented (i) addresses legitimate and core concerns, (ii) is consistent with international trade rules and (iii) reflects and considers China's domestic economy and the important role it has in the global economic community.

Where trade protection measures are implemented, we believe that we have the ability to develop, over a period of time, adequate alternative sources of supply for the products obtained from our present suppliers. If events prevented us from acquiring products from our suppliers in a particular country, our operations could be temporarily disrupted and we could experience an adverse financial impact. However, we believe we could abate any such disruption, and that much of the adverse impact on supply would, therefore, be of a short-term nature, although alternate sources of supply might not be as cost-effective and could have an ongoing adverse impact on profitability.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or "FCPA", and other anti-bribery laws applicable to our operations. We source a significant portion of our products from, and have important consumer markets, outside of the United States, and we have an ethics and compliance program to address compliance with the FCPA and similar laws by us, our employees, agents, suppliers and other partners.

COMPETITION

The athletic footwear, apparel and equipment industry is highly competitive on a worldwide basis. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment, including adidas, Anta, ASICS, Li Ning, lululemon athletica, Puma, Under Armour and V.F. Corporation, among others. The intense competition and the rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations.

NIKE is the largest seller of athletic footwear and apparel in the world. Important aspects of competition in this industry are:

- Product attributes such as quality; performance and reliability; new product innovation and development and consumer price/value.
- Consumer connection and affinity for brands and products, developed through marketing and promotion; social media interaction; customer support and service; identification with prominent and influential athletes, public figures, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics.
- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and digital platforms.

We believe that we are competitive in all of these areas.

TRADEMARKS AND PATENTS

We believe that our intellectual property rights are important to our brand, our success and our competitive position. We pursue available protections of these rights and vigorously protect them against third-party theft and infringement.

We use trademarks on nearly all of our products and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and the Company, and in distinguishing our goods from the goods of others. We consider our NIKE and Swoosh Design trademarks to be among our most valuable assets and we have registered these trademarks in almost 170 jurisdictions worldwide. In addition, we own many other trademarks that we use in marketing our products. We own common law rights in the trade dress of several significant shoe designs and elements. For certain trade dress, we have sought and obtained trademark registrations.

We have copyright protection in our design, graphics and other original works. In some instances, we also obtain registered copyrights.

We file for, own and maintain many U.S. and foreign utility and design patents protecting components, technologies, materials, manufacturing techniques, features, functionality, and industrial and aesthetic designs used in and for the manufacture of various athletic and leisure footwear and apparel, athletic equipment and digital devices and related software applications. These patents expire at various times.

We believe our success depends upon our capabilities in areas such as design, research and development, production and marketing and is supported by our intellectual property rights, such as trademarks, patents and trade secrets, among others.

We have followed a policy of applying for and registering intellectual property rights in the United States and select foreign countries on trademarks, inventions, innovations and designs that we deem valuable. We also continue to vigorously protect our intellectual property, including trademarks, patents and trade secrets against third-party infringement.

EMPLOYEES

As of May 31, 2019, we had approximately 76,700 employees worldwide, including retail and part-time employees. Management is committed to maintaining an environment where all NIKE employees have the opportunity to reach their full potential. None of our employees are represented by a union, except for certain employees in the APLA geography, where local law requires those employees to be represented by a trade union. Also, in some countries outside of the United States, local laws require employee representation by works councils (which may be entitled to information and consultation on certain Company decisions) or by organizations similar to a union. In certain European countries, we are required by local law to enter into and/or comply with industry-wide or national collective bargaining agreements. NIKE has never experienced a material interruption of operations due to labor disagreements.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The executive officers of NIKE, Inc. as of July 23, 2019 are as follows:

parker_photo.jpg	***Mark G. Parker***, Chairman, President and Chief Executive Officer — Mr. Parker, 63, was appointed President and Chief Executive Officer in January 2006 and named Chairman of the Board in 2016. He has been employed by NIKE since 1979 with primary responsibilities in product research, design and development, marketing and brand management. Mr. Parker was appointed divisional Vice President in charge of product development in 1987, corporate Vice President in 1989, General Manager in 1993, Vice President of Global Footwear in 1998 and President of the NIKE Brand in 2001.
campion_photo.jpg	***Andrew Campion***, Executive Vice President and Chief Financial Officer — Mr. Campion, 47, joined NIKE in 2007 as Vice President of Global Planning and Development, leading strategic and financial planning. He was appointed Chief Financial Officer of the NIKE Brand in 2010, responsible for leading all aspects of financial management for the Company's flagship brand. In 2014, he was appointed Senior Vice President, Strategy, Finance and Investor Relations in addition to his role as Chief Financial Officer of NIKE Brand. Mr. Campion assumed the role of Executive Vice President and Chief Financial Officer in August 2015. Prior to joining NIKE, he held leadership roles in strategic planning, mergers and acquisitions, financial planning and analysis, operations and planning, investor relations and tax at The Walt Disney Company from 1996 to 2007.
hill_photo.jpg	***Elliott Hill***, President, Consumer and Marketplace — Mr. Hill, 55, joined NIKE in 1988, with primary responsibilities in sales and retail. He has served as Apparel Sales Director in Europe, Retail Development Director in Europe, Vice President of Sales and Retail in EMEA, General Manager of US Retail, Vice President of US Sales, Retail and NIKE.com, and Vice President of Global Retail. Most recently, Mr. Hill served as President of Geographies and Sales and Vice President and General Manager of North America. Mr. Hill was appointed President, Consumer and Marketplace in 2018.
krane_photo.jpg	***Hilary K. Krane***, Executive Vice President, Chief Administrative Officer and General Counsel — Ms. Krane, 55, joined NIKE as Vice President and General Counsel in 2010. In 2011, her responsibilities expanded, and she became Vice President, General Counsel and Corporate Affairs. Ms. Krane was appointed Executive Vice President, Chief Administrative Officer and General Counsel in 2013. Prior to joining NIKE, Ms. Krane was General Counsel and Senior Vice President for Corporate Affairs at Levi Strauss & Co. from 2006 to 2010. From 1996 to 2006, she was a Partner and Assistant General Counsel at PricewaterhouseCoopers LLP.
matheson_photo.jpg	***Monique S. Matheson***, Executive Vice President, Global Human Resources — Ms. Matheson, 52, joined NIKE in 1998, with primary responsibilities in the human resources function. She was appointed as Vice President and Senior Business Partner in 2011 and Vice President, Chief Talent and Diversity Officer in 2012. Ms. Matheson was appointed Executive Vice President, Global Human Resources in 2017.
slusher_photo.jpg	***John F. Slusher***, Executive Vice President, Global Sports Marketing — Mr. Slusher, 50, joined NIKE in 1998, with primary responsibilities in global sports marketing. Mr. Slusher was appointed Director of Sports Marketing for Asia Pacific and Americas in 2006, divisional Vice President of Asia Pacific & Americas Sports Marketing in September 2007 and Vice President, Global Sports Marketing in November 2007. Prior to joining NIKE, Mr. Slusher was an attorney at the law firm of O'Melveny & Myers from 1995 to 1998.
sprunk_photo.jpg	***Eric D. Sprunk***, Chief Operating Officer — Mr. Sprunk, 55, joined NIKE in 1993. He was appointed Finance Director and General Manager of the Americas in 1994, Finance Director for NIKE Europe in 1995, Regional General Manager of NIKE Europe Footwear in 1998 and Vice President & General Manager of the Americas in 2000. Mr. Sprunk was appointed Vice President of Global Footwear in 2001, Vice President of Merchandising and Product in 2009 and Chief Operating Officer in 2013. Prior to joining NIKE, Mr. Sprunk was a certified public accountant with Price Waterhouse from 1987 to 1993.

ITEM 1A. RISK FACTORS

Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historic 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 SEC, 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 SEC, 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 technology 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 orders may not be indicative of future revenues due to changes in shipment timing, the changing mix of orders with shorter lead times, 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, including without limitation, through social media or in connection with brand damaging events; 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 of the United States, including, without limitation, exchange rate fluctuations, inflation, import duties, tariffs, quotas, political and economic instability and terrorism; the impact of U.S. tax reform legislation on our results of operations; the potential impact of new laws, regulations or policy, including, without limitation, tariffs, import/export, trade and immigration regulations or policies; changes in government regulations; the impact of, including business and legal developments relating to, climate change and natural disasters; litigation, regulatory proceedings, sanctions or any other claims asserted against NIKE; the ability to attract and retain qualified employees, and any negative public perception with respect to key personnel; the effects of NIKE's 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 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.

Our products face intense competition.

NIKE is a consumer products company and the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. The athletic footwear, apparel and equipment industry is highly competitive both in the United States and worldwide. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment. We also compete with other companies for the production capacity of independent manufacturers that produce our products. Our NIKE Direct operations, both through our digital commerce operations and retail stores, also compete with multi-brand retailers selling our products.

Product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, customer service, digital commerce platforms and social media presence are areas of intense competition. This, in addition to rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations. In addition, the competitive nature of retail including shifts in the ways in which consumers are shopping, and the rising trend of digital commerce, constitutes a risk factor implicating our NIKE Direct and wholesale operations. If we do not adequately and timely anticipate and respond to our competitors, our costs may increase or the consumer demand for our products may decline significantly.

Failure to maintain our reputation and brand image could negatively impact our business.

Our iconic brands have worldwide recognition, and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining, promoting and growing our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, product innovation and product quality. Our commitment to product innovation and quality and our continuing investment in design (including materials) and marketing may not have the desired impact on our brand image and reputation. In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and digital dissemination of advertising campaigns. We could be adversely impacted if we fail to achieve any of these objectives.

Our brand value also depends on our ability to maintain a positive consumer perception of our corporate integrity and brand culture. Negative claims or publicity involving us, our products, consumer data, or any of our key employees, endorsers, sponsors or suppliers could seriously damage our reputation and brand image, regardless of whether such claims are accurate. For example, while we require our suppliers of our products to operate their business in compliance with applicable laws and regulations, we do not control their practices. Negative publicity relating to a violation or an alleged violation of policies or laws by such suppliers could damage our brand image. Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Adverse publicity about regulatory or legal action against us, or by us, could also damage our reputation and brand image, undermine consumer confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. If the reputation or image of any of our brands is tarnished or if we receive negative publicity, then our sales, financial condition and results of operations could be materially and adversely affected.

If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our revenues and profits.

Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. However, lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, and influencing sports and fitness preferences through extensive marketing, we could experience lower sales, excess inventories or lower profit margins, any of which could have an adverse effect on our results of operations and financial condition. In addition, we market our products globally through a diverse spectrum of advertising and promotional programs and campaigns, including social media, mobile applications and online advertising. If we do not successfully market our products or if advertising and promotional costs increase, these factors could have an adverse effect on our business, financial condition and results of operations.

We rely on technical innovation and high-quality products to compete in the market for our products.

Technical innovation and quality control in the design and manufacturing process of footwear, apparel and athletic equipment is essential to the commercial success of our products. Research and development play a key role in technical innovation. We rely upon specialists in the fields of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, as well as research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts to develop and test cutting-edge performance products. While we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems.

Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.

We establish relationships with professional athletes, sports teams and leagues, as well as other public figures, including artists, designers and influencers, to develop, evaluate and promote our products, as well as establish product authenticity with consumers. However, as competition in our industry has increased, the costs associated with establishing and retaining such sponsorships and other relationships have increased. If we are unable to maintain our current associations with professional athletes, sports teams and leagues, or other public figures, or to do so at a reasonable cost, we could lose the high visibility or on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brands, net revenues, expenses and profitability could be harmed.

Furthermore, if certain endorsers were to stop using our products contrary to their endorsement agreements, our business could be adversely affected. In addition, actions taken by athletes, teams or leagues, or other endorsers, associated with our products that harm the reputations of those athletes, teams or leagues, or endorsers, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition. In addition, poor performance by our endorsers, a failure to continue to correctly identify promising athletes, public figures or sports organizations, to use and endorse our products or a failure to enter into cost-effective endorsement arrangements with prominent athletes, public figures, and sports organizations could adversely affect our brand, sales and profitability.

General economic factors beyond our control, and changes in the global economic environment, including fluctuations in inflation and currency exchange rates, could result in lower revenues, higher costs and decreased margins and earnings.

A majority of our products are manufactured and sold outside of the United States, and we conduct purchase and sale transactions in various currencies, which increases our exposure to the volatility of global economic conditions, including fluctuations in inflation and foreign currency exchange rates. Additionally, there has been, and may continue to be, volatility in currency exchange rates as a result of the United Kingdom's impending exit from the European Union, commonly referred to as “Brexit” or new or proposed U.S. policy changes that impact the U.S. Dollar value relative to other international currencies. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into U.S. Dollars for consolidated financial reporting, as weakening of foreign currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations have adversely affected and could continue to have an adverse effect on our results of operations and financial condition.

We may hedge certain foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger U.S. Dollar or other trading currency, but they also reduce the positive impact of a weaker U.S. Dollar or other trading currency. Our future financial results could be significantly affected by the value of the U.S. Dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

Global economic conditions could have a material adverse effect on our business, operating results and financial condition.

The uncertain state of the global economy continues to impact businesses around the world, most acutely in emerging markets and developing economies. If global economic and financial market conditions do not improve or deteriorate, the following factors could have a material adverse effect on our business, operating results and financial condition:

- Slower consumer spending may result in reduced demand for our products, reduced orders from retailers for our products, order cancellations, lower revenues, higher discounts, increased inventories and lower gross margins.
- In the future, we may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so.
- We conduct transactions in various currencies, which increases our exposure to fluctuations in foreign currency exchange rates relative to the U.S. Dollar. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies, including in response to certain policies advocated or implemented by the U.S. presidential administration, could have a significant impact on our reported operating results and financial condition.
- Continued volatility in the availability and prices for commodities and raw materials we use in our products and in our supply chain (such as cotton or petroleum derivatives) could have a material adverse effect on our costs, gross margins and profitability.
- If retailers of our products experience declining revenues or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, late

retailer payments, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense.

- If retailers of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could negatively impact the sale of our products to consumers.

- If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products.

Our business is affected by seasonality, which could result in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third fiscal quarters. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment and in connection with the timing of significant sporting events, such as the NBA Finals, Olympics or the World Cup, among others. In addition, our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including general economic conditions, changes in consumer preferences, weather conditions, availability of import quotas, transportation disruptions and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of additional factors that are beyond our control, including manufacturing and transportation costs, shifts in product sales mix and geographic sales trends, all of which we expect to continue. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

We may be adversely affected by the financial health of our customers.

We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of our products, we offer certain customers the opportunity to place orders five to six months ahead of delivery under our futures ordering program. These advance orders may be canceled under certain conditions, and the risk of cancellation may increase when dealing with financially unstable retailers or retailers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties up to and including bankruptcies, which have had an adverse effect on our sales, our ability to collect on receivables and our financial condition. When the retail economy weakens or as consumer behavior shifts, retailers may be more cautious with orders. A slowing or changing economy in our key markets could adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operations and financial condition. In addition, product sales are dependent in part on high quality merchandising and an appealing retail environment to attract consumers, which requires continuing investments by retailers. Retailers that experience financial difficulties may fail to make such investments or delay them, resulting in lower sales and orders for our products.

Failure to accurately forecast consumer demand could lead to excess inventories or inventory shortages, which could result in decreased operating margins, reduced cash flows and harm to our business.

To meet anticipated demand for our products, we purchase products from manufacturers outside of our futures ordering program and in advance of customer orders, which we hold in inventory and resell to customers. There is a risk we may be unable to sell excess products ordered from manufacturers. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have an adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer, distributor and consumer relationships and diminish brand loyalty. The difficulty in forecasting demand also makes it difficult to estimate our future results of operations, financial condition and cash flows from period to period. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income, and we are unlikely to forecast such effects with any certainty in advance.

Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk and impair our ability to sell products.

The athletic footwear, apparel and equipment retail markets in some countries are dominated by a few large athletic footwear, apparel and equipment retailers with many stores. These retailers have in the past increased their market share by expanding through acquisitions and construction of additional stores. These situations concentrate our credit risk with a relatively small number of retailers, and, if any of these retailers were to experience a shortage of liquidity or consumer behavior shifts away from traditional retail, it would increase the risk that their outstanding payables to us may not be paid. In addition, increasing market share concentration among one or a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our products, we may be unable to find a sufficient number of other retail outlets for our products to sustain the same level of sales and revenues.

Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

Our NIKE Direct stores have required substantial fixed investment in equipment and leasehold improvements, information systems and personnel. We have entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than other stores. Due to the high fixed-cost structure associated with our NIKE Direct operations, a decline in sales, a shift in consumer behavior away from brick-and-mortar retail, or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and employee-related costs.

Many factors unique to retail operations, some of which are beyond the Company's control, pose risks and uncertainties. Risks include, but are not limited to: credit card fraud; mismanagement of existing retail channel partners; and inability to manage costs associated with store construction and operation. In addition, extreme weather conditions in the areas in which our stores are located could adversely affect our business.

If the technology-based systems that give our consumers the ability to shop with us online do not function effectively, our operating results, as well as our ability to grow our digital commerce business globally, could be materially adversely affected.

Many of our consumers shop with us through our digital platforms. Increasingly, consumers are using mobile-based devices and applications to shop online with us and with our competitors, and to do comparison shopping. We are increasingly using social media and proprietary mobile applications to interact with our consumers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, user-friendly digital commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers could place us at a competitive disadvantage, result in the loss of digital commerce and other sales, harm our reputation with consumers, have a material adverse impact on the growth of our digital commerce business globally and could have a material adverse impact on our business and results of operations.

Risks specific to our digital commerce business also include diversion of sales from our and our retailers' brick and mortar stores, difficulty in recreating the in-store experience through direct channels and liability for online content. Our failure to successfully respond to these risks might adversely affect sales in our digital commerce business, as well as damage our reputation and brands.

Failure to adequately protect or enforce our intellectual property rights could adversely affect our business.

We periodically discover counterfeit reproductions of our products or products that otherwise infringe our intellectual property rights. If we are unsuccessful in enforcing our intellectual property rights, continued sales of these products could adversely affect our sales and our brand and could result in a shift of consumer preference away from our products.

The actions we take to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others. We also may be unable to prevent others from seeking to block sales of our products as violations of proprietary rights.

We may be subject to liability if third parties successfully claim we infringe on their intellectual property rights. Defending infringement claims could be expensive and time-consuming and might result in our entering into costly license agreements. We also may be subject to significant damages or injunctions against development, use, importation and/or sale of certain products.

We take various actions to prevent the unauthorized use and/or disclosure of our confidential information and intellectual property rights. These actions include contractual measures such as entering into non-disclosure and non-compete agreements and agreements relating to our collaborations with third parties and providing confidential information awareness training. Our controls and efforts to prevent unauthorized use and/or disclosure of confidential information and intellectual property rights might not always be effective. For example, confidential information related to business strategy, new technologies, mergers and acquisitions, unpublished financial results or personal data could be prematurely, inadvertently, or improperly used and/or disclosed, resulting in a loss of reputation, a decline in our stock price and/or a negative impact on our market position, and could lead to damages, fines, penalties or injunctions.

In addition, the laws of certain countries may not protect or allow enforcement of intellectual property rights to the same extent as the laws of the United States. We may face significant expenses and liability in connection with the protection of our intellectual property rights, including outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

We are subject to data security and privacy risks that could negatively affect our results, operations or reputation.

In addition to our own sensitive and proprietary business information, we handle transactional and personal information about our customers and users of our digital experiences, which include online distribution channels and product engagement, adaptive products and personal fitness applications. Hackers and data thieves are increasingly sophisticated and operate social engineering, such as phishing, and large-scale, complex automated attacks that can evade detection for long periods of time. Any breach of our or our service providers' network, or other vendor systems, may result in the loss of confidential business and financial data, misappropriation of our consumers', users' or employees' personal information or a disruption of our business. Any of these outcomes could have a material adverse effect on our business, including unwanted media attention, impairment of our consumer and customer relationships, damage to our reputation; resulting in lost sales and consumers, fines, lawsuits, or significant legal and remediation expenses. We also may need to expend significant resources to protect against, respond to and/or redress problems caused by any breach.

In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S., Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation (the “GDPR”), which became effective on May 25, 2018; and California passed the California Consumer Privacy Act (the "CCPA") which will go into effect in 2020. These laws impose additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR and CCPA) and regulations can be costly; any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, damage to our reputation and credibility and could have a negative impact on revenues and profits.

We are subject to the risk our licensees may not generate expected sales or maintain the value of our brands.

We currently license, and expect to continue licensing, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. If our licensees fail to successfully market and sell licensed products, or fail to obtain sufficient capital or effectively manage their business operations, customer relationships, labor relationships, supplier relationships or credit risks, it could adversely affect our revenues, both directly from reduced royalties received and indirectly from reduced sales of our other products.

We also rely on our licensees to help preserve the value of our brands. Although we attempt to protect our brands through approval rights over the design, production processes, quality, packaging, merchandising, distribution, advertising and promotion of our licensed products, we cannot completely control the use of our licensed brands by our licensees. The misuse of a brand by or negative publicity involving a licensee could have a material adverse effect on that brand and on us.

Failure of our contractors or our licensees' contractors to comply with our code of conduct, local laws and other standards could harm our business.

We work with hundreds of contractors outside of the United States to manufacture our products, and we also have license agreements that permit unaffiliated parties to manufacture or contract for the manufacture of products using our intellectual property. We require the contractors that directly manufacture our products and our licensees that make products using our intellectual property (including, indirectly, their contract manufacturers) to comply with a code of conduct and other environmental, health and safety standards for the benefit of workers. We also require these contractors to comply with applicable standards for product safety. Notwithstanding their contractual obligations, from time to time contractors may not comply with such standards or applicable local law or our licensees may fail to enforce such standards or applicable local law on their contractors. Significant or continuing noncompliance with such standards and laws by one or more contractors could harm our reputation or result in a product recall and, as a result, could have an adverse effect on our sales and financial condition. Negative publicity regarding production methods, alleged practices or workplace or related conditions of any of our suppliers, manufacturers or licensees could adversely affect our brand image and sales and force us to locate alternative suppliers, manufacturers or licenses.

Our international operations involve inherent risks which could result in harm to our business.

Virtually all of our athletic footwear and apparel is manufactured outside of the United States, and the majority of our products are sold outside of the United States. Accordingly, we are subject to the risks generally associated with global trade and doing business abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political unrest, disruptions or delays in cross-border shipments and changes in economic conditions in countries in which our products are manufactured or where we sell products. This includes, for example, the uncertainty surrounding the effect of Brexit, including changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union, as well as new and proposed changes affecting tax laws and trade policy in the U.S. and elsewhere as further described below under *“We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate”* and *“Changes to U.S. trade policy, tariff and import/export regulations may have a material adverse effect on our business, financial condition and results of operations.”* The U.S. presidential administration has indicated a focus on policy reforms that discourage U.S. corporations from outsourcing manufacturing and production activities to foreign jurisdictions, including through tariffs or penalties on goods manufactured outside the U.S., which may require us to change the way we conduct business and adversely affect our results of operations. The administration has also targeted the specific practices of certain U.S. multinational corporations in public statements which, if directed at us, could harm our reputation or otherwise negatively impact our business.

In addition, disease outbreaks, terrorist acts and military conflict have increased the risks of doing business abroad. These factors, among others, could affect our ability to manufacture products or procure materials, our ability to import products, our ability to sell products in international markets and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be adversely affected. In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States and other countries. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, safeguard measures, anti-dumping duties, cargo restrictions to prevent terrorism, restrictions on the transfer of currency, climate change legislation, product safety regulations or other charges or restrictions, any of which could have an adverse effect on our results of operations and financial condition.

We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate.

We are subject to the tax laws in the United States and numerous foreign jurisdictions. Current economic and political conditions make tax laws and regulations, or their interpretation and application, in any jurisdiction subject to significant change. On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Tax Act"), which includes a number of significant changes to previous U.S. tax laws that impact us, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings, and a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, among other changes. The Tax Act also transitions U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which has the effect of subjecting certain earnings of our foreign subsidiaries to U.S. taxation.

Implementation of the Tax Act required us to record incremental provisional tax expense in fiscal 2018, which increased our effective tax rate in fiscal 2018. We completed our analysis of the Tax Act in the second quarter of fiscal 2019 and no adjustments were made to the provisional amounts recorded.

We earn a substantial portion of our income in foreign countries and are subject to the tax laws of those jurisdictions. There have been proposals to reform foreign tax laws that could significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form these proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our income tax expense and cash flows.

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays and rulings. We also utilize tax rulings and other agreements to obtain certainty in treatment of certain tax matters. These holidays and rulings expire in whole or in part from time to time and may be extended when certain conditions are met, or terminated if certain conditions are not met. The impact of any changes in conditions would be the loss of certainty in treatment thus potentially impacting our effective income tax rate. For example, in January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to current and prior periods and the Company's Netherlands income taxes in the future could increase.

We are also subject to the examination of our tax returns by the United States Internal Revenue Service ("IRS") and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for income taxes. Although we believe our tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from our historical income tax provisions and accruals. The results of audits or related disputes could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. For example, we and our subsidiaries are also engaged in a number of intercompany transactions across multiple tax jurisdictions. Although we believe we have clearly reflected the economics of these transactions and the proper local transfer pricing documentation is in place, tax authorities may propose and sustain adjustments that could result in changes that may impact our mix of earnings in countries with differing statutory tax rates.

Changes to U.S. trade policy, tariff and import/export regulations or our failure to comply with such regulations may have a material adverse effect on our reputation, business, financial condition and results of operations.

Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business, as well as any negative sentiment toward the U.S. as a result of such changes, could adversely affect our business. The U.S. presidential administration has instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business. It may be time-consuming and expensive for us to alter our business operations in order to adapt to or comply with any such changes.

As a result of recent policy changes of the U.S. presidential administration and recent U.S. government proposals, there may be greater restrictions and economic disincentives on international trade. The new tariffs and other changes in U.S. trade policy has in the past and could continue to trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing retaliatory measures on certain U.S. goods. The Company, similar to many other multinational corporations, does a significant amount of business that would be impacted by changes to the trade policies of the U.S. and foreign countries (including governmental action related to tariffs, international trade agreements, or economic sanctions). Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations.

If one or more of our counterparty financial institutions default on their obligations to us or fail, we may incur significant losses.

As part of our hedging activities, we enter into transactions involving derivative financial instruments, which may include forward contracts, commodity futures contracts, option contracts, collars and swaps with various financial institutions. In addition, we have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the United States and abroad. As a result, we are exposed to the risk of default by or failure of counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default, or our assets deposited or held in accounts with such counterparty, may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

We rely on a concentrated source base of contract manufacturers to supply a significant portion of our footwear products.

NIKE is supplied by 112 footwear factories located in 12 countries. We do not own or operate any of the footwear manufacturing facilities and depend upon independent contract manufacturers to manufacture all of the footwear products we sell. In fiscal 2019, four footwear contract manufacturers each accounted for greater than 10% of fiscal 2019 footwear production and in aggregate accounted for approximately 61% of NIKE Brand footwear production in fiscal 2019. Our ability to meet our customers' needs depends on our ability to maintain a steady supply of products from our independent contract manufacturers. If one or more of our significant suppliers were to sever their relationship with us or significantly alter the terms of our relationship, including due to changes in applicable trade policies, we may not be able to obtain replacement products in a timely manner, which could have a material adverse effect on our sales, financial condition or results of operations. Additionally, if any of our primary contract manufacturers fail to make timely shipments, do not meet our quality standards or otherwise fail to deliver us product in accordance with our plans, there could be a material adverse effect on our results of operations.

Our products are subject to risks associated with overseas sourcing, manufacturing and financing.

The principal materials used in our apparel products — natural and synthetic fabrics and threads, specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat or repel rain and/or snow as well as plastic and metal hardware — are available in countries where our manufacturing takes place. The principal materials used in our footwear products — natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, natural and synthetic fabrics and threads, nylon, canvas and polyurethane films — are also locally available to manufacturers. Both our apparel and footwear products are dependent upon the ability of our unaffiliated contract manufacturers to locate, train, employ and retain adequate personnel. NIKE contractors and suppliers buy raw materials and are subject to wage rates that are oftentimes regulated by the governments of the countries in which our products are manufactured.

There could be a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption, our contract manufacturers might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price or at all. Further, our unaffiliated contract manufacturers have experienced and may continue to experience in the future, unexpected increases in work wages, whether government mandated or otherwise and increases in compliance costs due to governmental regulation concerning certain metals used in the manufacturing of our products. In addition, we cannot be certain that our unaffiliated manufacturers will be able to fill our orders in a timely manner. If we experience significant increases in demand, or reductions in the availability of materials, or need to replace an existing manufacturer, there can be no assurance additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms acceptable to us, or at all, or that any supplier or manufacturer would allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing or sources of materials, we may encounter delays in production and added costs as a result of the time it takes to train suppliers and manufacturers in our methods, products, quality control standards and labor, health and safety standards. Any delays, interruption or increased costs in labor or wages, or the supply of materials or manufacture of our products could have an adverse effect on our ability to meet retail customer and consumer demand for our products and result in lower revenues and net income both in the short- and long-term.

Because independent manufacturers make a majority of our products outside of our principal sales markets, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, work stoppages, port strikes, infrastructure congestion or other factors, and costs and delays associated with consolidating or transitioning between manufacturers, could adversely impact our financial performance. In addition, manufacturing delays or unexpected demand for our products may require us to use faster, but more expensive, transportation methods such as air freight, which could adversely affect our profit margins. The cost of oil is a significant component in manufacturing and transportation costs, so increases in the price of petroleum products can adversely affect our profit margins. Changes in U.S. trade policies, including new and potential changes to import tariffs and existing trade policies and agreements, could also have a significant impact on our activities in foreign jurisdictions, and could adversely affect our results of operations.

In addition, Sojitz America performs significant import-export financing services for the Company. During fiscal 2019, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Brazil, Canada, India, South Africa and Uruguay (collectively the “Sojitz Markets”), excluding products produced and sold in the same country. Any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in the Sojitz Markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability.

Our success depends on our global distribution facilities.

We distribute our products to customers directly from the factory and through distribution centers located throughout the world. Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies and growth, particularly in emerging markets, depends on the proper operation of our distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties (including those involved in shipping product to and from our distribution facilities). Our distribution facilities could be interrupted by information technology problems and disasters such as earthquakes or fires. Any significant failure in our distribution facilities could result in an adverse effect on our business. We maintain business interruption insurance, but it may not adequately protect us from adverse effects caused by significant disruptions in our distribution facilities.

We rely significantly on information technology to operate our business, including our supply chain and retail operations, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

We are heavily dependent on information technology systems and networks, including the Internet and third-party services (“Information Technology Systems”), across our supply chain, including product design, production, forecasting, ordering, manufacturing, transportation, sales and distribution, as well as for processing financial information for external and internal reporting purposes, retail operations and other business activities. Information Technology Systems are critical to many of our operating activities and our business processes and may be negatively impacted by any service interruption or shutdown. For example, our ability to effectively manage and maintain our inventory and to ship products to customers on a timely basis depends significantly on the reliability of these Information Technology Systems. Over a number of years, we have implemented Information Technology Systems in all of the geographical regions in which we operate. Our work to integrate, secure and enhance these systems and related processes in our global operations is ongoing and NIKE will continue to invest in these efforts. The failure of these systems to operate effectively, including as a result of security breaches, viruses, hackers, malware, natural disasters, vendor business interruptions or other causes, or failure to properly maintain, protect, repair or upgrade systems, or problems with transitioning to upgraded or replacement systems could cause delays in product fulfillment and reduced efficiency of our operations, could require significant capital investments to remediate the problem which may not be sufficient to cover all eventualities, and may have an adverse effect on our reputation, results of operations and financial condition.

We also use Information Technology Systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. If Information Technology Systems suffer severe damage, disruption or shutdown and our business continuity plans, or those of our vendors, do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, which could result in lost revenues and profits, as well as reputational damage. Furthermore, we depend on Information Technology Systems and personal data collection for digital marketing, digital commerce, consumer engagement and the marketing and use of our digital products and services. We also rely on our ability to engage in electronic communications throughout the world between and among our employees as well as with other third parties, including customers, suppliers, vendors and consumers. Any interruption in Information Technology Systems may impede our ability to engage in the digital space and result in lost revenues, damage to our reputation, and loss of users.

The market for prime real estate is competitive.

Our ability to effectively obtain real estate to open new retail stores and otherwise conduct our operations, both domestically and internationally, depends on the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics and other factors. We also must be able to effectively renew our existing real estate leases. In addition, from time to time, we seek to downsize, consolidate, reposition or close some of our real estate locations, which may require modification of an existing lease. Failure to secure adequate new locations or successfully modify leases for existing locations, or failure to effectively manage the profitability of our existing fleet of retail stores, could have an adverse effect on our operating results and financial condition.

Additionally, the economic environment may make it difficult to determine the fair market rent of real estate properties domestically and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents and to renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet our targets or efficiently manage the profitability of our existing fleet of stores, which could have an adverse effect on our operating results and financial condition.

Extreme weather conditions and natural disasters could negatively impact our operating results and financial condition.

Extreme weather conditions in the areas in which our retail stores, suppliers, customers, distribution centers, headquarters and vendors are located could adversely affect our operating results and financial condition. Moreover, natural disasters such as earthquakes, hurricanes and tsunamis, whether occurring in the United States or abroad, and their related consequences and effects, including energy shortages and public health issues, could disrupt our operations, the operations of our vendors and other suppliers or result in economic instability that may negatively impact our operating results and financial condition.

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in technology, business infrastructure, new businesses, product offering and manufacturing innovation and expansion of existing businesses, such as our digital commerce operations, which require substantial cash investments and management attention. We believe cost-effective investments are essential to business growth and profitability; however, significant investments are subject to typical risks and uncertainties inherent in developing a new business or expanding an existing business. The failure of any significant investment to provide expected returns or profitability could have a material adverse effect on our financial results and divert management attention from more profitable business operations.

We are subject to a complex array of laws and regulations and litigation and other legal and regulatory proceedings, which could have an adverse effect on our business, financial condition and results of operations.

As a multinational corporation with operations and distribution channels throughout the world, we are subject to and must comply with extensive laws and regulations in the U.S. and other jurisdictions in which we have operations and distribution channels. If we or our employees, agents, suppliers, and other partners fail to comply with any of these laws or regulations, such failure could subject us to fines, sanctions or other penalties that could negatively affect our reputation, business, financial condition and results of operations. We are involved in various types of claims, lawsuits, regulatory proceedings and government investigations relating to our business, our products and the actions of our employees and representatives, including contractual and employment relationships, product liability, antitrust, trademark rights and a variety of other matters. It is not possible to predict with certainty the outcome of any such legal or regulatory proceedings or investigations, and we could in the future incur judgments, fines or penalties, or enter into settlements of lawsuits and claims that could have a material adverse effect on our business, financial condition and results of operations and negatively impact our reputation. The global nature of our business means legal and compliance risks, such as anti-bribery, anti-corruption, fraud, trade, environmental, competition, privacy and other regulatory matters, will continue to exist and additional legal proceedings and other contingencies will arise from time to time, which could adversely affect us. In addition, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations, may result in significant unanticipated legal and reputational risks. Any current or future legal or regulatory proceedings could divert management's attention from our operations and result in substantial legal fees.

The success of our business depends, in part, on high-quality employees, including key personnel.

Our success depends in part on the continued service of high-quality employees, including key executive officers and personnel. The loss of the services of key individuals, or any negative perception with respect to these individuals, could harm our business. Our success also depends on our ability to recruit, retain and engage our personnel sufficiently, both to maintain our current business and to execute our strategic initiatives. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel. In addition, shifts in U.S. immigration policy could negatively impact our ability to attract, hire and retain highly skilled employees who are from outside the U.S.

The sale of a large number of shares of common stock by our principal stockholder could depress the market price of our common stock.

As of June 30, 2019, Swoosh, LLC beneficially owned approximately 78% of our Class A Common Stock. If, on June 30, 2019, all of these shares were converted into Class B Common Stock, the commensurate ownership percentage of our Class B Common Stock would be approximately 16%. The shares are available for resale, subject to the requirements of the U.S. securities laws and the terms of the limited liability company agreement governing Swoosh, LLC. The sale or prospect of a sale of a substantial number of these shares could have an adverse effect on the market price of our common stock. Swoosh, LLC was formed by Philip H. Knight, our Chairman Emeritus, to hold the majority of his shares of Class A Common Stock. Swoosh, LLC is controlled by Mr. Knight's son and NIKE director, Travis Knight.

Changes in our credit ratings or macroeconomic conditions may affect our liquidity, increasing borrowing costs and limiting our financing options.

Our long-term debt is currently rated Investment Grade by Standard & Poor's and Moody's Investors Service. If our credit ratings are lowered, borrowing costs for future long-term debt or short-term credit facilities may increase and our financing options, including our access to the unsecured credit market, could be limited. We may also be subject to restrictive covenants that would reduce our flexibility to, among other things, incur additional indebtedness, make restricted payments, pledge assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Failure to comply with such covenants could result in a default, and as a result, the commitments of our lenders under our credit agreements may be terminated and the maturity of amounts owed may be accelerated. In addition, macroeconomic conditions, such as increased volatility or disruption in the credit markets, could adversely affect our ability to refinance existing debt.

If our internal controls are ineffective, our operating results could be adversely affected.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, as provided in “Management's Discussion and Analysis of Financial Condition and Results of Operations.” The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventory reserves, contingent payments under endorsement contracts, accounting for property, plant and equipment and definite-lived assets, hedge accounting for derivatives, stock-based compensation, income taxes and other contingencies. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class B Common Stock.

Anti-takeover provisions may impair an acquisition of the Company or reduce the price of our common stock.

There are provisions within our articles of incorporation and Oregon law intended to protect shareholder interests by providing the Board of Directors a means to attempt to deny coercive takeover attempts or to negotiate with a potential acquirer in order to obtain more favorable terms. Such provisions include a control share acquisition statute, a freeze-out statute, two classes of stock that vote separately on certain issues, and the fact that holders of Class A Common Stock elect three-quarters of the Board of Directors rounded down to the next whole number. However, such provisions could discourage, delay or prevent an unsolicited merger, acquisition or other change in control of our company that some shareholders might believe to be in their best interests or in which shareholders might receive a premium for their common stock over the prevailing market price. These provisions could also discourage proxy contests for control of the Company.

We may fail to meet market expectations, which could cause the price of our stock to decline.

Our Class B Common Stock is traded publicly, and at any given time various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as analysts' opinions of our future performance, which may, in part, be based upon any guidance we have provided. Analysts' estimates are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has been brought against NIKE and other companies following a decline in the market price of their securities. If our stock price is volatile for any reason, we may become involved in this type of litigation in the future. Any litigation could result in reputational damage, substantial costs and a diversion of management's attention and resources needed to successfully run our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following is a summary of principal properties owned or leased by NIKE:

The NIKE World Campus, owned by NIKE and located near Beaverton, Oregon, USA, is an approximately 400-acre site consisting of over 40 buildings which, together with adjacent leased properties, functions as our world headquarters and is occupied by approximately 12,600 employees engaged in management, research, design, development, marketing, finance and other administrative functions serving nearly all of our segments. We lease a similar, but smaller, administrative facility in Hilversum, the Netherlands, which serves as the headquarters for the Europe, Middle East & Africa geography and management of certain brand functions for our non-U.S. operations. We also lease an office complex in Shanghai, China, our headquarters for Greater China, occupied by employees focused on implementing our wholesale, NIKE Direct and merchandising strategies in the region, among other functions.

In the United States, NIKE has six significant distribution centers. Four are located in Memphis, Tennessee, two of which are owned and two of which are leased. Two other distribution centers, one located in Indianapolis, Indiana and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. NIKE Brand apparel and equipment are also shipped from our Foothill Ranch, California distribution center, which we lease. NIKE has several distribution facilities outside the United States, some of which are leased and operated by third-party logistics providers. The most significant distribution facilities outside the United States are located in Laakdal, Belgium; Taicang, China; Tomisato, Japan and Incheon, Korea, all of which we own.

Air Manufacturing Innovation manufactures Air-Sole cushioning components at NIKE-owned facilities and one leased facility located near Beaverton, Oregon and in St. Charles, Missouri. Air Manufacturing Innovation also manufactures and sells small amounts of various other plastic products to other manufacturers.

Aside from the principal properties described above, we lease many offices worldwide for sales and administrative purposes. We lease 1,147 retail stores worldwide, which primarily consist of factory stores. See “United States Market” and “International Markets” in Part I of this Report for additional information regarding our retail stores. Our leases expire at various dates through the year 2043.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NIKE's Class B Common Stock is listed on the New York Stock Exchange and trades under the symbol NKE. At July 19, 2019, there were 23,305 holders of record of NIKE's Class B Common Stock and 13 holders of record of NIKE's Class A Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class A Common Stock is not publicly traded, but each share is convertible upon request of the holder into one share of Class B Common Stock. Refer to Selected Quarterly Financial Data in Part II, Item 6 of this Report for dividends declared on the Class A and Class B Common Stock.

During the third quarter of fiscal 2019, the Company completed the previous four-year, $12 billion share repurchase program authorized by the Board of Directors in November 2015. Throughout this program the Company purchased a total of 192.1 million shares at an average price of $62.47 per share. Upon completion of this program, the Company began purchasing shares under the new four-year, $15 billion share repurchase program authorized by the Board of Directors in June 2018. As of May 31, 2019, the Company had repurchased 11.6 million shares at an average price of $84.72 per share for a total approximate cost of $986 million under this new program.

All share repurchases were made under NIKE's publicly announced program and there are no other programs under which the Company repurchases shares. The following table presents a summary of share repurchases made during the quarter ended May 31, 2019:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (IN MILLIONS)
March 1 — March 31, 2019	2,939,869	$ 85.33	$ 14,660
April 1 — April 30, 2019	3,303,884	$ 86.53	$ 14,374
May 1 — May 31, 2019	4,346,128	$ 82.85	$ 14,014
	10,589,881	**$ 84.69**	

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PERFORMANCE GRAPH

The following graph demonstrates a five-year comparison of cumulative total returns for NIKE's Class B Common Stock; the Standard & Poor's 500 Stock Index; the Standard & Poor's Apparel, Accessories & Luxury Goods Index; and the Dow Jones U.S. Footwear Index. The graph assumes an investment of $100 on May 31, 2014 in each of the indices and our Class B Common Stock. Each of the indices assumes that all dividends were reinvested on the day of issuance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG NIKE, INC.; S&P 500 INDEX; THE DOW JONES U.S. FOOTWEAR INDEX; AND S&P APPAREL, ACCESSORIES & LUXURY GOODS INDEX

cumulativetotalreturn_line.jpg

The Dow Jones U.S. Footwear Index consists of NIKE, Deckers Outdoor Corporation, Skechers U.S.A., Inc., Steven Madden, Ltd. and Wolverine World Wide, Inc. Because NIKE is part of the Dow Jones U.S. Footwear Index, the price and returns of NIKE stock have a substantial effect on this index. The Standard & Poor's Apparel, Accessories & Luxury Goods Index consists of Capri Holdings Limited, Hanesbrands Inc., PVH Corporation, Ralph Lauren Corporation, Tapestry, Inc., Under Armour, Inc. and V.F. Corporation. The Dow Jones U.S. Footwear Index and the Standard & Poor's Apparel, Accessories & Luxury Goods Index include companies in two major lines of business in which the Company competes. The indices do not encompass all of the Company's competitors, nor all product categories and lines of business in which the Company is engaged.

The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make or endorse any predictions as to future stock performance.

The performance graph above is being furnished solely to accompany this Report pursuant to Item 201(e) of Regulation S-K, is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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ITEM 6. SELECTED FINANCIAL DATA

All share and per share amounts are reflective of the two-for-one stock split that began trading at the split-adjusted price on December 24, 2015.

	FINANCIAL HISTORY				
(In millions, except per share data and financial ratios)	**2019**	**2018**	**2017**	**2016**	**2015**
Year Ended May 31,					
Revenues	$ 39,117	$ 36,397	$ 34,350	$ 32,376	$ 30,601
Gross profit	17,474	15,956	15,312	14,971	14,067
Gross margin	44.7 %	43.8 %	44.6 %	46.2 %	46.0 %
Net income(1)	4,029	1,933	4,240	3,760	3,273
Earnings per common share:(1)					
Basic	2.55	1.19	2.56	2.21	1.90
Diluted	2.49	1.17	2.51	2.16	1.85
Weighted average common shares outstanding	1,579.7	1,623.8	1,657.8	1,697.9	1,723.5
Diluted weighted average common shares outstanding	1,618.4	1,659.1	1,692.0	1,742.5	1,768.8
Cash dividends declared per common share	0.86	0.78	0.70	0.62	0.54
Cash provided by operations	5,903	4,955	3,846	3,399	4,906
At May 31,					
Cash and equivalents	$ 4,466	$ 4,249	$ 3,808	$ 3,138	$ 3,852
Short-term investments	197	996	2,371	2,319	2,072
Inventories	5,622	5,261	5,055	4,838	4,337
Working capital	8,659	9,094	10,587	9,667	9,255
Total assets(2)(3)	23,717	22,536	23,259	21,379	21,590
Long-term debt	3,464	3,468	3,471	1,993	1,072
Capital lease obligations	60	75	27	15	5
Redeemable preferred stock	0.3	0.3	0.3	0.3	0.3
Shareholders' equity(3)	9,040	9,812	12,407	12,258	12,707
Market capitalization	120,951	114,983	87,084	92,867	87,044
Financial Ratios:					
Return on equity(1)(3)	42.7 %	17.4 %	34.4 %	30.1 %	27.8 %
Return on assets(1)(2)(3)	17.4 %	8.4 %	19.0 %	17.5 %	16.3 %
Inventory turns	4.0	4.0	3.8	3.8	4.0
Current ratio at May 31	2.1	2.5	2.9	2.8	2.5
Price/Earnings ratio at May 31(1)	31.0	61.4	21.1	25.6	27.5

(1) *Fiscal 2018 reflects the impact from the enactment of the Tax Cuts and Jobs Act. Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.*

(2) *Fiscal 2019 reflects the impact from the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for additional information.*

(3) *Fiscal 2019 reflects the impact from the adoption of ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for additional information.*

SELECTED QUARTERLY FINANCIAL DATA

(UNAUDITED)	**1ST QUARTER**		**2ND QUARTER**		**3RD QUARTER**		**4TH QUARTER**	
(In millions, except per share data)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018(1)**	**2019**	**2018**
Revenues	$ 9,948	$ 9,070	$ 9,374	$ 8,554	$ 9,611	$ 8,984	$ 10,184	$ 9,789
Gross profit	4,397	3,962	4,105	3,678	4,339	3,938	4,633	4,378
Gross margin	44.2 %	43.7 %	43.8 %	43.0 %	45.1 %	43.8 %	45.5 %	44.7 %
Net income (loss)	1,092	950	847	767	1,101	(921)	989	1,137
Earnings (loss) per common share:								
Basic	0.69	0.58	0.54	0.47	0.70	(0.57)	0.63	0.71
Diluted	0.67	0.57	0.52	0.46	0.68	(0.57)	0.62	0.69
Weighted average common shares outstanding	1,594.0	1,639.1	1,581.4	1,627.0	1,572.8	1,623.5	1,570.2	1,605.7
Diluted weighted average common shares outstanding	1,634.4	1,676.9	1,620.7	1,660.9	1,609.6	1,623.5	1,607.5	1,641.2
Cash dividends declared per common share	0.20	0.18	0.22	0.20	0.22	0.20	0.22	0.20

(1) The third quarter of fiscal 2018 reflects the impact from the enactment of the Tax Cuts and Jobs Act. Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NIKE designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services worldwide. We are the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE-owned retail stores and through digital platforms (which we refer to collectively as our "NIKE Direct" operations), to retail accounts and to a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Our goal is to deliver value to our shareholders by building a profitable global portfolio of branded footwear, apparel, equipment and accessories businesses. Our strategy is to achieve long-term revenue growth by creating innovative, "must-have" products, building deep personal consumer connections with our brands and delivering compelling consumer experiences through digital platforms and at retail.

Through the Consumer Direct Offense, we are focusing on our Triple Double strategy, with the objective of doubling the impact of innovation, increasing our speed to market and growing our direct connections with consumers. As a result of the execution of this strategy, our long-term financial goals through fiscal 2023, on average, per year, are as follows:

- High single-digit revenue growth;
- Gross margin expansion of as much as 50 basis points;
- Slight selling and administrative expense leverage;
- Mid-teens earnings per share growth; and
- Low-thirties percentage rate of return on invested capital.

Fiscal 2019 was our first full year executing against our new strategy and our results demonstrated the power of the NIKE, Inc. portfolio to generate revenue growth, while investing in capabilities to fuel our next phase of long-term growth and profitability. We achieved record revenues in fiscal 2019, growing 7% to $39.1 billion. The NIKE Brand, which represents over 90% of NIKE, Inc. *Revenues*, delivered 8% revenue growth fueled by investments in innovative products and digital platforms. On a currency-neutral basis, NIKE Brand revenues grew 11%, driven by growth across all geographies, NIKE Direct and wholesale, nearly all key categories and double-digit growth across footwear and apparel. Within our NIKE Direct business, digital outpaced all other channels, growing at 35% in fiscal 2019. Revenues for Converse increased 1% and 3% on a reported and currency-neutral basis, respectively, primarily driven by double-digit growth in Asia and digital, which was partially offset by declines in the U.S. and Europe.

Income before income taxes increased 11% for fiscal 2019, as revenue growth and gross margin expansion were partially offset by higher selling and administrative expense. NIKE, Inc. gross margin increased 90 basis points primarily due to higher full-price average selling price (ASP), on a wholesale equivalent basis, favorable changes in foreign currency exchange rates and growth in NIKE Direct. These benefits were partially offset by higher product costs. Selling and administrative expense was higher as a percent of revenues, reflecting investments in data and analytics capabilities, digital commerce platforms and an initial investment in a new enterprise resource planning tool to accelerate our end-to-end digital transformation. Additionally, we prioritized investments in global brand campaigns aimed at deepening our connection with consumers.

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

While foreign currency markets remain volatile, in part due to geopolitical dynamics leading to a stronger U.S. Dollar, we continue to see opportunities to drive future growth and profitability, and remain committed to effectively managing our business to achieve our financial goals over the long-term by executing against the operational strategies outlined above.

For discussion related to the results of operations and changes in financial condition for fiscal 2018 compared to fiscal 2017 refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our fiscal 2018 Form 10-K, which was filed with the United States Securities and Exchange Commission on July 25, 2018.

USE OF NON-GAAP FINANCIAL MEASURES

Throughout this Annual Report on Form 10-K, we discuss non-GAAP financial measures, including references to wholesale equivalent revenues and currency-neutral revenues, which should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). References to wholesale equivalent revenues are intended to provide context as to the total size of our NIKE Brand market footprint if we had no NIKE Direct operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our NIKE Direct operations, which are charged at prices comparable to those charged to external wholesale customers. Additionally, currency-neutral revenues are calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends excluding the impact of translation arising from foreign currency exchange rate fluctuations.

Management uses these non-GAAP financial measures when evaluating the Company's performance, including when making financial and operating decisions. Additionally, management believes these non-GAAP financial measures provide investors with additional financial information that should be considered when assessing our underlying business performance and trends. However, references to wholesale equivalent revenues and currency-neutral revenues should not be considered in isolation or as a substitute for other financial measures calculated and presented in accordance with U.S. GAAP and may not be comparable to similarly titled non-GAAP measures used by other companies.

RESULTS OF OPERATIONS

(Dollars in millions, except per share data)	FISCAL 2019	FISCAL 2018(1)	% CHANGE	FISCAL 2017	% CHANGE
Revenues	$ 39,117	$ 36,397	7 %	$ 34,350	6 %
Cost of sales	21,643	20,441	6 %	19,038	7 %
Gross profit	17,474	15,956	10 %	15,312	4 %
Gross margin	*44.7 %*	*43.8 %*		*44.6 %*	
Demand creation expense	3,753	3,577	5 %	3,341	7 %
Operating overhead expense	8,949	7,934	13 %	7,222	10 %
Total selling and administrative expense	12,702	11,511	10 %	10,563	9 %
% of revenues	*32.5 %*	*31.6 %*		*30.8 %*	
Interest expense (income), net	49	54	—	59	—
Other (income) expense, net	(78)	66	—	(196)	—
Income before income taxes	4,801	4,325	11 %	4,886	-11 %
Income tax expense	772	2,392	-68 %	646	270 %
Effective tax rate	*16.1 %*	*55.3 %*		*13.2 %*	
NET INCOME	**$ 4,029**	**$ 1,933**	**108 %**	**$ 4,240**	**-54 %**
Diluted earnings per common share	$ 2.49	$ 1.17	113 %	$ 2.51	-53 %

(1) Fiscal 2018 reflects the impact from the enactment of the Tax Cuts and Jobs Act. Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

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CONSOLIDATED OPERATING RESULTS

REVENUES

(Dollars in millions)	FISCAL 2019	FISCAL 2018(1)	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(2)	FISCAL 2017(1)	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(2)
NIKE, Inc. Revenues:							
NIKE Brand Revenues by:							
Footwear	$ 24,222	$22,268	9 %	12 %	$21,081	6 %	4 %
Apparel	11,550	10,733	8 %	11 %	9,654	11 %	9 %
Equipment	1,404	1,396	1 %	4 %	1,425	-2 %	-4 %
Global Brand Divisions(3)	42	88	-52 %	-53 %	73	21 %	12 %
Total NIKE Brand Revenues	**37,218**	**34,485**	**8 %**	**11 %**	**32,233**	**7 %**	**5 %**
Converse	1,906	1,886	1 %	3 %	2,042	-8 %	-11 %
Corporate(4)	(7)	26	—	—	75	—	—
TOTAL NIKE, INC. REVENUES	**$ 39,117**	**$36,397**	**7 %**	**11 %**	**$34,350**	**6 %**	**4 %**
Supplemental NIKE Brand Revenues Details:							
NIKE Brand Revenues by:							
Sales to Wholesale Customers	$ 25,423	$23,969	6 %	10 %	$23,078	4 %	2 %
Sales through NIKE Direct	11,753	10,428	13 %	16 %	9,082	15 %	12 %
Global Brand Divisions(3)	42	88	-52 %	-53 %	73	21 %	12 %
TOTAL NIKE BRAND REVENUES	**$ 37,218**	**$34,485**	**8 %**	**11 %**	**$32,233**	**7 %**	**5 %**
NIKE Brand Revenues on a Wholesale Equivalent Basis:(2)							
Sales to Wholesale Customers	$ 25,423	$23,969	6 %	10 %	$23,078	4 %	2 %
Sales from our Wholesale Operations to NIKE Direct Operations	7,127	6,332	13 %	16 %	5,616	13 %	10 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 32,550**	**$30,301**	**7 %**	**11 %**	**$28,694**	**6 %**	**4 %**
NIKE Brand Wholesale Equivalent Revenues by:(2)							
Men's	$ 17,737	$16,698	6 %	10 %	$15,819	6 %	4 %
Women's	7,380	6,913	7 %	11 %	6,637	4 %	2 %
NIKE Kids'	5,283	4,906	8 %	11 %	4,838	1 %	-1 %
Others(5)	2,150	1,784	21 %	25 %	1,400	27 %	14 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 32,550**	**$30,301**	**7 %**	**11 %**	**$28,694**	**6 %**	**4 %**
NIKE Brand Wholesale Equivalent Revenues by:(2)							

Running	$ 4,488	$ 4,496	0 %	4 %	$ 4,576	-2 %	-4 %
NIKE Basketball	1,597	1,494	7 %	9 %	1,292	16 %	14 %
Jordan Brand	3,138	2,856	10 %	12 %	3,098	-8 %	-9 %
Football (Soccer)	1,894	2,146	-12 %	-6 %	1,984	8 %	5 %
Training	3,137	3,126	0 %	3 %	3,080	1 %	0 %
Sportswear	12,442	10,720	16 %	21 %	9,272	16 %	13 %
Others(6)	5,854	5,463	7 %	9 %	5,392	1 %	0 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 32,550**	**$30,301**	**7 %**	**11 %**	**$28,694**	**6 %**	**4 %**

(1) Certain prior year amounts have been reclassified to conform to fiscal 2019 presentation. These changes had no impact on previously reported consolidated results of operations or shareholders' equity.

(2) The percent change excluding currency changes and the presentation of wholesale equivalent revenues represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.

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

(4) 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.

(5) Others include all unisex products, equipment and other products not allocated to Men's, Women's and NIKE Kids', as well as certain adjustments that are not allocated to products designated by gender or age.

(6) Others include all other categories and certain adjustments that are not allocated at the category level.

FISCAL 2019 NIKE BRAND REVENUE HIGHLIGHTS

The following tables present NIKE Brand revenues disaggregated by reportable operating segment, distribution channel and major product line:

nikebrand-geography_pie.jpg nikebrand-sales_pie.jpg nikebrand-product_pie.jpg

FISCAL 2019 COMPARED TO FISCAL 2018

On a currency-neutral basis, NIKE, Inc. *Revenues* grew 11% for fiscal 2019, driven by growth in both the NIKE Brand and Converse. All NIKE Brand geographies delivered higher revenues for fiscal 2019 as our Consumer Direct Offense continued to deliver innovative products, deep brand connections and compelling retail experiences to consumers through NIKE.com and related mobile applications, digital partner platforms, NIKE-owned and partner stores, as well as through our wholesale customers. Revenue growth was broad-based as Greater China, North America and EMEA each contributed approximately 3 percentage points of growth to NIKE, Inc. *Revenues*, with APLA contributing approximately 2 percentage points of growth.

On a currency-neutral basis, NIKE Brand footwear and apparel revenues increased 12% and 11%, respectively, for fiscal 2019, while NIKE Brand equipment revenues grew 4%. On a category basis, the increase in NIKE Brand footwear revenues was driven by growth in nearly all key categories, led by Sportswear and, to a lesser extent, the Jordan Brand and Running. Unit sales of footwear increased 8% and higher ASP per pair contributed approximately 4 percentage points of footwear revenue growth, primarily due to higher full-price and NIKE Direct ASPs.

The currency-neutral increase in NIKE Brand apparel revenues for fiscal 2019 was fueled by growth in nearly all key categories, most notably Sportswear. Unit sales of apparel increased 6% and higher ASP per unit contributed approximately 5 percentage points of apparel revenue growth, primarily due to higher full-price ASP, in part reflecting lower discounts, as well as higher NIKE Direct ASP.

On a reported basis, NIKE Direct revenues represented approximately 32% of our total NIKE Brand revenues for fiscal 2019 compared to 30% for fiscal 2018. Digital commerce sales were $3.8 billion for fiscal 2019 compared to $2.8 billion for fiscal 2018. On a currency-neutral basis, NIKE Direct revenues increased 16% for fiscal 2019, driven by strong digital commerce sales growth of 35%, comparable store sales growth of 6% and the addition of new stores. Comparable store sales, which exclude digital commerce sales, comprises revenue 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.

On a wholesale equivalent and currency-neutral basis, fiscal 2019 NIKE Brand Men's and Women's revenues increased 10% and 11%, respectively, both driven by growth in nearly all key categories, led by Sportswear. During fiscal 2019, the growth in Women's was fueled by our focus on compelling design, creating female-focused brand campaigns globally and a shift towards digital-led distribution. Revenues for our NIKE Kids' business increased 11%, as all key categories, except Football (Soccer), experienced growth.

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GROSS MARGIN

FISCAL 2019 COMPARED TO FISCAL 2018

For fiscal 2019, our consolidated gross profit increased 10% to $17,474 million compared to $15,956 million for fiscal 2018. Gross margin increased 90 basis points to 44.7% for fiscal 2019 compared to 43.8% for fiscal 2018 due to the following:

grossmarginwalk_bar.jpg

**Wholesale equivalent*

Higher NIKE Brand product costs are primarily due to shifts in mix to higher-cost products and an increase in labor rates compared to fiscal 2018. Additionally, gross margin was favorably impacted by growth in our higher-margin NIKE Direct business.

TOTAL SELLING AND ADMINISTRATIVE EXPENSE

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	FISCAL 2017	% CHANGE
Demand creation expense(1)	$ 3,753	$ 3,577	5 %	$ 3,341	7 %
Operating overhead expense	8,949	7,934	13 %	7,222	10 %
Total selling and administrative expense	$ 12,702	$ 11,511	10 %	$ 10,563	9 %
% of revenues	32.5 %	31.6 %	90 bps	30.8 %	80 bps

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

FISCAL 2019 COMPARED TO FISCAL 2018

Demand creation expense increased 5% for fiscal 2019 compared to fiscal 2018, due to sports marketing investments, as well as higher advertising and marketing expenses to support global brand campaigns, key sports moments and new product launches. Changes in foreign currency exchange rates decreased *Demand creation expense* by approximately 2 percentage points for fiscal 2019.

Operating overhead expense increased 13% for fiscal 2019 compared to fiscal 2018, driven primarily by higher wage-related and administrative expenses, which reflect critical investments in innovation, data and analytics capabilities, digital commerce platforms and an initial investment in a new enterprise resource planning tool to accelerate our end-to-end digital transformation. Changes in foreign currency exchange rates decreased *Operating overhead expense* by approximately 2 percentage points for fiscal 2019.

OTHER (INCOME) EXPENSE, NET

(Dollars In millions)	FISCAL 2019	FISCAL 2018	FISCAL 2017
Other (income) expense, net	$ (78)	$ 66	$ (196)

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.

FISCAL 2019 COMPARED TO FISCAL 2018

Other (income) expense, net changed from $66 million of other expense, net for fiscal 2018 to $78 million of other income, net for fiscal 2019, primarily due to a $136 million net beneficial change in foreign currency conversion gains and losses, including hedges.

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 an unfavorable impact on our *Income before income taxes* of $97 million for fiscal 2019.

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INCOME TAXES

	FISCAL 2019	FISCAL 2018	% CHANGE	FISCAL 2017	% CHANGE
Effective tax rate	16.1 %	55.3 %	(3,920) bps	13.2 %	4,210 bps

FISCAL 2019 COMPARED TO FISCAL 2018

Our effective tax rate was 16.1% for fiscal 2019, compared to 55.3% for fiscal 2018 due to significant changes related to the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Act") in the prior year and a reduction in the U.S. federal statutory rate to 21% in the current year. These decreases were partially offset by an increase in U.S. tax on foreign earnings due to the impact of global intangible low-taxed income (GILTI).

Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information on the impact of the Tax Act.

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; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE, Jordan and Hurley brands. The Company's NIKE Direct operations are managed within each geographic operating segment. Converse is also a reportable operating segment for the Company, and operates predominately 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 exchange rates are assigned twice per year to each NIKE Brand entity in our geographic operating segments and Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the use of these standard rates to record non-functional currency product purchases into the entity's functional currency. Differences between assigned standard foreign currency exchange 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)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES(1)
North America	$ 15,902	$ 14,855	7 %	7 %	$ 15,216	-2 %	-2 %
Europe, Middle East & Africa	9,812	9,242	6 %	11 %	7,970	16 %	9 %
Greater China	6,208	5,134	21 %	24 %	4,237	21 %	18 %
Asia Pacific & Latin America	5,254	5,166	2 %	13 %	4,737	9 %	10 %
Global Brand Divisions(2)	42	88	-52 %	-53 %	73	21 %	12 %
TOTAL NIKE BRAND	**37,218**	**34,485**	**8 %**	**11 %**	**32,233**	**7 %**	**5 %**
Converse	1,906	1,886	1 %	3 %	2,042	-8 %	-11 %
Corporate(3)	(7)	26	—	—	75	—	—
	$ 39,117	**$ 36,397**	**7 %**	**11 %**	**$ 34,350**	**6 %**	**4 %**

TOTAL NIKE, INC. REVENUES

(1) *The percent change excluding currency changes represents a non-GAAP financial measure. See "Use of Non-GAAP Financial Measures" for further information.*

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

(3) *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 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 Consolidated Statements of Income. As discussed in Note 17 — Operating Segments and Related Information in the accompanying Notes to the 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)	FISCAL 2019	FISCAL 2018	% CHANGE	FISCAL 2017	% CHANGE
North America	$ 3,925	$ 3,600	9 %	$ 3,875	-7 %
Europe, Middle East & Africa	1,995	1,587	26 %	1,507	5 %
Greater China	2,376	1,807	31 %	1,507	20 %
Asia Pacific & Latin America	1,323	1,189	11 %	980	21 %
Global Brand Divisions	(3,262)	(2,658)	-23 %	(2,677)	1 %
TOTAL NIKE BRAND	**6,357**	**5,525**	**15 %**	**5,192**	**6 %**
Converse	303	310	-2 %	477	-35 %
Corporate	(1,810)	(1,456)	-24 %	(724)	-101 %
TOTAL NIKE, INC. EARNINGS BEFORE INTEREST AND TAXES	**4,850**	**4,379**	**11 %**	**4,945**	**-11 %**
Interest expense (income), net	49	54	—	59	—
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 4,801**	**$ 4,325**	**11 %**	**$ 4,886**	**-11 %**

NORTH AMERICA

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 10,045	$ 9,322	8 %	8 %	$ 9,684	-4 %	-4 %
Apparel	5,260	4,938	7 %	7 %	4,886	1 %	1 %
Equipment	597	595	0 %	0 %	646	-8 %	-8 %
TOTAL REVENUES	**$ 15,902**	**$ 14,855**	**7 %**	**7 %**	**$ 15,216**	**-2 %**	**-2 %**
Revenues by:							
Sales to Wholesale Customers	$ 10,875	$ 10,159	7 %	7 %	$ 10,756	-6 %	-6 %
Sales through NIKE Direct	5,027	4,696	7 %	7 %	4,460	5 %	5 %
TOTAL REVENUES	**$ 15,902**	**$ 14,855**	**7 %**	**7 %**	**$ 15,216**	**-2 %**	**-2 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 3,925**	**$ 3,600**	**9 %**		**$ 3,875**	**-7 %**	

In the current marketplace environment, we believe there continues to be a meaningful shift in the way consumers shop for product and make purchasing decisions. Consumers are demanding a constant flow of fresh and innovative product, and have an expectation for superior service and rapid delivery, all fueled by the shift toward digital and mono-brand experiences in NIKE Direct. Specifically, in North America we anticipate continued evolution within the retail landscape, driven by shifting consumer traffic patterns across digital and physical channels. The evolution of the North America marketplace is resulting in third-party retail store closures; however, we are currently seeing stabilization and momentum building with our strategic wholesale customers, fueled by innovative product and NIKE Brand consumer experiences, leveraging digital.

FISCAL 2019 COMPARED TO FISCAL 2018

On a currency-neutral basis, North America revenues increased 7%, driven by growth in nearly all key categories, led by Sportswear. NIKE Direct revenues increased 7% for fiscal 2019 as strong digital commerce sales growth of 29% and the addition of new stores more than offset a 3% decline in comparable store sales. The decline in comparable store sales was primarily due to higher sales in NIKE Brand in-line stores being more than offset by declines in NIKE Brand Factory Stores

("NFS"), as growth in our full-price channel has impacted the availability and composition of off-price inventory for sale within NFS.

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Footwear revenues increased 8% on a currency-neutral basis for fiscal 2019, driven by growth in most key categories, led by Sportswear. Unit sales of footwear increased 4%, while higher ASP per pair contributed approximately 4 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to higher full-price ASP, in part reflecting lower discounts, as well as higher ASP in our NIKE Direct business.

On a currency-neutral basis, apparel revenues increased 7% for fiscal 2019, driven by higher revenues in all key categories, led by Sportswear, followed by NIKE Basketball. Unit sales of apparel increased 5%, while higher ASP per unit contributed approximately 2 percentage points of apparel revenue growth. The increase in ASP per unit was primarily a result of higher full-price ASP, in part reflecting lower discounts.

Reported EBIT increased 9% for fiscal 2019, reflecting higher revenues, gross margin expansion and selling and administrative expense leverage. Gross margin increased 30 basis points as higher full-price ASP, in part reflecting lower discounts, as well as favorable full-price mix more than offset higher product costs. Selling and administrative expense grew due to higher demand creation and operating overhead expenses. The increase in demand creation expense was primarily due to higher advertising and marketing costs. Operating overhead expense increased as a result of higher wage-related costs, including investments in our NIKE Direct operations.

EUROPE, MIDDLE EAST & AFRICA

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 6,293	$ 5,875	7 %	12 %	$ 5,192	13 %	6 %
Apparel	3,087	2,940	5 %	9 %	2,395	23 %	16 %
Equipment	432	427	1 %	5 %	383	11 %	6 %
TOTAL REVENUES	**$ 9,812**	**$ 9,242**	**6 %**	**11 %**	**$ 7,970**	**16 %**	**9 %**
Revenues by:							
Sales to Wholesale Customers	$ 7,076	$ 6,765	5 %	9 %	$ 5,917	14 %	8 %
Sales through NIKE Direct	2,736	2,477	10 %	15 %	2,053	21 %	13 %
TOTAL REVENUES	**$ 9,812**	**$ 9,242**	**6 %**	**11 %**	**$ 7,970**	**16 %**	**9 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,995**	**$ 1,587**	**26 %**		**$ 1,507**	**5 %**	

FISCAL 2019 COMPARED TO FISCAL 2018

On a currency-neutral basis, EMEA revenues for fiscal 2019 grew 11%, reflecting balanced growth across all territories. Revenues increased in nearly all key categories, led by Sportswear. NIKE Direct revenues increased 15%, driven by strong digital commerce sales growth of 28%, comparable store sales growth of 10% and the addition of new stores.

Currency-neutral footwear revenues grew 12% for fiscal 2019, driven by higher revenues in nearly all key categories, led by Sportswear. Unit sales of footwear increased 9% and higher ASP per pair contributed approximately 3 percentage points of footwear revenue growth. Higher ASP per pair primarily resulted from higher full-price and NIKE Direct ASPs.

For fiscal 2019, currency-neutral apparel revenues increased 9% due to growth in most key categories, led by Sportswear. Unit sales of apparel increased 6% and higher ASP per unit contributed approximately 3 percentage points of apparel revenue growth. Higher ASP per unit was primarily due to higher NIKE Direct and full-price ASPs.

Reported EBIT increased 26% for fiscal 2019, primarily due to strong revenue growth, gross margin expansion and selling and administrative expense leverage. Gross margin increased 280 basis points as favorable standard foreign currency exchange rates and higher full-price ASP more than offset higher product costs. Selling and administrative expense increased due to higher operating overhead and demand creation expense. Growth in operating overhead expense was primarily due to higher wage-related and administrative costs, including investments in our NIKE Direct operations. The increase in demand creation expense was primarily driven by higher advertising and marketing expenses, as well as higher sports marketing costs. The growth in demand creation and operating overhead expense was favorably impacted by changes in foreign currency exchange rates, specifically the Euro.

GREATER CHINA

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 4,262	$ 3,496	22 %	25 %	$ 2,920	20 %	16 %
Apparel	1,808	1,508	20 %	23 %	1,188	27 %	23 %
Equipment	138	130	6 %	8 %	129	1 %	-1 %
TOTAL REVENUES	**$ 6,208**	**$ 5,134**	**21 %**	**24 %**	**$ 4,237**	**21 %**	**18 %**
Revenues by:							
Sales to Wholesale Customers	$ 3,726	$ 3,216	16 %	19 %	$ 2,774	16 %	13 %
Sales through NIKE Direct	2,482	1,918	29 %	33 %	1,463	31 %	27 %
TOTAL REVENUES	**$ 6,208**	**$ 5,134**	**21 %**	**24 %**	**$ 4,237**	**21 %**	**18 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 2,376**	**$ 1,807**	**31 %**		**$ 1,507**	**20 %**	

FISCAL 2019 COMPARED TO FISCAL 2018

On a currency-neutral basis, Greater China revenues for fiscal 2019 increased 24%, driven by higher revenues in nearly all key categories, led by Sportswear, the Jordan Brand and NIKE Basketball. NIKE Direct revenues increased 33%, driven by strong digital commerce sales growth of 47%, comparable store sales growth of 23% and the addition of new stores.

Currency-neutral footwear revenues increased 25% for fiscal 2019, driven by growth in most key categories, led by Sportswear and, to a lesser extent, the Jordan Brand and NIKE Basketball. Unit sales of footwear increased 20% and higher ASP per pair contributed approximately 5 percentage points to footwear revenue growth, driven by higher NIKE Direct and full-price ASPs.

The currency-neutral apparel revenue growth of 23% for fiscal 2019 was fueled by higher revenues in nearly all key categories, most notably Sportswear and the Jordan Brand. Unit sales of apparel increased 14% and higher ASP per unit increased apparel revenue growth by approximately 9 percentage points, primarily driven by higher full-price and NIKE Direct ASPs.

Reported EBIT increased 31% for fiscal 2019, driven by higher revenues, gross margin expansion and selling and administrative expense leverage. Gross margin increased 210 basis points as higher full-price ASP, in part reflecting lower discounts, as well as favorable standard foreign currency exchange rates and higher NIKE Direct margins more than offset higher product costs. Selling and administrative expense increased due to higher demand creation and operating overhead expenses. Demand creation expense increased primarily due to higher retail brand presentation, advertising and marketing costs, as well as higher sports marketing expenses. Growth in operating overhead expense was driven by higher wage-related and administrative costs, including investments in our NIKE Direct operations.

ASIA PACIFIC & LATIN AMERICA

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues by:							
Footwear	$ 3,622	$ 3,575	1 %	12 %	$ 3,285	9 %	9 %
Apparel	1,395	1,347	4 %	15 %	1,185	14 %	15 %
Equipment	237	244	-3 %	8 %	267	-9 %	-8 %
TOTAL REVENUES	**$ 5,254**	**$ 5,166**	**2 %**	**13 %**	**$ 4,737**	**9 %**	**10 %**
Revenues by:							

Sales to Wholesale Customers	$ 3,746	$ 3,829	-2 %	9 %	$ 3,631	5 %	6 %
Sales through NIKE Direct	1,508	1,337	13 %	23 %	1,106	21 %	21 %
TOTAL REVENUES	**$ 5,254**	**$ 5,166**	**2 %**	**13 %**	**$ 4,737**	**9 %**	**10 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,323**	**$ 1,189**	**11 %**		**$ 980**	**21 %**	

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FISCAL 2019 COMPARED TO FISCAL 2018

On a currency-neutral basis, APLA revenues increased 13% for fiscal 2019, driven by higher revenues in every territory. Territory revenue growth was led by SOCO (which comprises Argentina, Uruguay and Chile), Korea and Japan, which increased 19%, 16% and 11%, respectively. Revenues increased in nearly all key categories, led by Sportswear and Running. NIKE Direct revenues increased 23%, fueled by strong digital commerce sales growth of 61%, comparable store sales growth of 14% and the addition of new stores.

The 12% increase in currency-neutral footwear revenues for fiscal 2019 was attributable to growth in most key categories, led by Sportswear, followed by Running. Unit sales of footwear increased 6% and higher ASP per pair contributed approximately 6 percentage points of footwear revenue growth, driven by higher full-price and NIKE Direct ASPs, in part reflecting inflationary conditions in our SOCO territory.

Currency-neutral apparel revenues grew 15% for fiscal 2019, driven by higher revenues in nearly all key categories, most notably Sportswear, followed by Training. Unit sales of apparel increased 7% and higher ASP per unit contributed approximately 8 percentage points of apparel revenue growth, primarily driven by higher full-price and NIKE Direct ASPs, in part reflecting inflationary conditions in our SOCO territory.

Reported EBIT increased 11% for fiscal 2019 due to revenue growth, gross margin expansion and slightly lower selling and administrative expense. Gross margin increased 170 basis points as higher full-price ASP, as well as the favorable impact of growth and margin expansion in our NIKE Direct business, more than offset higher product costs. Demand creation expense decreased slightly as higher retail brand presentation and sports marketing costs were more than offset by the favorable impact of changes in foreign currency exchange rates, primarily the Argentine Peso (ARS) and Brazilian Real (BRL). Operating overhead expense decreased slightly as higher wage-related and administrative costs in our NIKE Direct operations were more than offset by the favorable impact of changes in foreign currency exchange rates, primarily the ARS and BRL.

GLOBAL BRAND DIVISIONS

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues	$ 42	$ 88	-52 %	-53 %	$ 73	21 %	12 %
Earnings (Loss) Before Interest and Taxes	$ (3,262)	$ (2,658)	-23 %		$ (2,677)	1 %	

Global Brand Divisions primarily represent demand creation and operating overhead expense, including product creation and design expenses that are centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology. Revenues for Global Brand Divisions are primarily attributable to NIKE Brand licensing businesses that are not part of a geographic operating segment.

FISCAL 2019 COMPARED TO FISCAL 2018

Global Brand Divisions' loss before interest and taxes increased 23% for fiscal 2019 as total selling and administrative expense increased compared to fiscal 2018. Operating overhead expense growth was primarily driven by higher wage-related and administrative costs resulting from investments in data and analytics capabilities, digital commerce platforms and our initial investment in a new enterprise resource planning tool, all of which are in an effort to accelerate our end-to-end digital transformation. Lower demand creation expense was primarily due to lower advertising and marketing costs.

CONVERSE

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
Revenues	$ 1,906	$ 1,886	1 %	3 %	$ 2,042	-8 %	-11 %
Earnings Before Interest and Taxes	$ 303	$ 310	-2 %		$ 477	-35 %	

In territories we define as “direct distribution markets,” Converse designs, markets and sells products directly to distributors, wholesale customers and to consumers through direct to consumer operations. The largest direct distribution markets are the United States, the United Kingdom and China. We do not own the Converse trademarks in Japan and accordingly do not earn revenues 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.

FISCAL 2019 COMPARED TO FISCAL 2018

On a currency-neutral basis, Converse revenues increased 3% for fiscal 2019. Comparable direct distribution markets (i.e., markets served under a direct distribution model for comparable periods in the current and prior fiscal years) increased 2%, which drove the majority of total Converse revenue growth. Comparable direct distribution market unit sales decreased 3% for fiscal 2019, while higher ASP per unit contributed approximately 5 percentage points of direct distribution markets revenue growth. On a territory basis, the increase in comparable direct distribution markets revenues for the year was primarily attributable to revenue growth in Asia across all distribution channels, partially offset by lower revenues in the U.S. and Europe. Conversion of markets from licensed to direct distribution had minimal impact on total Converse revenues for fiscal 2019. Revenues from comparable licensed markets grew 6% for fiscal 2019, primarily due to revenue growth in Asia and Brazil, but had minimal impact on total Converse revenue growth.

Reported EBIT for Converse decreased 2% for fiscal 2019 as higher selling and administrative expense more than offset gross margin expansion and revenue growth. Gross margin increased 180 basis points, driven by higher margin in our direct to consumer business, favorable standard foreign currency exchange rates and higher full-price ASP due to changes in product mix. Selling and administrative expense increased due to higher operating overhead and higher demand creation expense. Higher operating overhead expense was due to an increase in wage-related and administrative costs, primarily to support investments in our digital business. Higher demand creation expense was primarily due to an increase in advertising and marketing costs associated with our digital platform.

CORPORATE

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	FISCAL 2017	% CHANGE
Revenues	$ (7)	$ 26	—	$ 75	—
Earnings (Loss) Before Interest and Taxes	$ (1,810)	$ (1,456)	-24 %	$ (724)	-101 %

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 largely consists 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 exchange 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.

FISCAL 2019 COMPARED TO FISCAL 2018

For fiscal 2019, Corporate's loss before interest and taxes increased $354 million primarily due to the following:

- an unfavorable change of $276 million 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 unfavorable change of $210 million, primarily due to higher operating overhead expense driven by higher wage-related and administrative costs; and

-

a favorable change in net foreign currency gains and losses of $132 million 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.

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 material to NIKE, Inc. We manage these exposures by taking advantage of natural offsets and currency correlations existing 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 existing 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 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.

Refer to Note 6 — Fair Value Measurements and Note 14 — Risk Management and Derivatives in the accompanying Notes to the 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.

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:

     a. Certain NIKE entities purchase product from the NTC, a wholly-owned sourcing hub that buys NIKE branded products from 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. NTC sales to a NIKE entity with a different functional currency results in 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 inventory costs 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 14 — Risk Management and Derivatives in the accompanying Notes to the 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 reduces 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 NIKE Brand and Converse revenues associated with European operations 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 entered into contractual agreements which have payments indexed to foreign currencies that create embedded derivative contracts recorded at fair value through *Other (income) expense, net*. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the 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, except for hedges of the embedded derivative components of the product cost exposures and other contractual agreements.

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. Accordingly, changes in fair value of these instruments are 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.

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 (loss)* within *Shareholders' equity*. In the translation of our 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 $1,236 million, a benefit of approximately $832 million and a detriment of approximately $542 million for the years ended May 31, 2019, 2018 and 2017, respectively. The impact of foreign exchange rate fluctuations on the translation of our *Income before income taxes* was a detriment of approximately $233 million, a benefit of approximately $177 million and a detriment of approximately $115 million for the years ended May 31, 2019, 2018 and 2017, respectively.

Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Management has concluded our Argentina subsidiary within our APLA operating segment is operating in a hyper-inflationary market. As a result, beginning in the second quarter of fiscal 2019, the functional currency of our Argentina subsidiary changed from the local currency to the U.S. Dollar. As of and for the period ended May 31, 2019, this change did not have a material impact on our results of operations or financial condition and we do not anticipate it will have a material impact in future periods based on current rates.

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 U.S. GAAP. 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 the purchase of U.S. Dollar denominated available-for-sale investments are accounted for as cash flow hedges.

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, $110 million and $59 million on our *Income before income taxes* for the years ended May 31, 2019, 2018 and 2017, 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 as net investment hedges in accordance with U.S. GAAP. There were no outstanding net investment hedges as of May 31, 2019 and 2018. There were no cash flows from net investment hedge settlements for the years ended May 31, 2019, 2018 and 2017.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITY

Cash provided by operations was $5,903 million for fiscal 2019 compared to $4,955 million for fiscal 2018. Net income, adjusted for non-cash items, generated $5,341 million of operating cash flow for fiscal 2019 compared to $3,473 million for fiscal 2018. The net change in working capital and other assets and liabilities resulted in an increase to *Cash provided by operations* of $562 million for fiscal 2019, compared to an increase to *Cash provided by operations* of $1,482 million for fiscal 2018. The primary driver of the change in working capital relates to the accrual of $1,172 million for the transition tax under the Tax Act during fiscal 2018. Refer to Note 9 — Income Taxes for additional information on the Tax Act. *Cash provided by operations* in fiscal 2019 was further impacted by the net change in cash collateral with derivative counterparties as a result of hedging transactions. During fiscal 2019, we received cash collateral of $266 million compared to $23 million in fiscal 2018. In addition, the change in *Accounts receivable, net*, decreased *Cash provided by operations* by $457 million in fiscal 2019, primarily driven by revenue growth.

Cash provided (used) by investing activities was an outflow of $264 million for fiscal 2019, compared to an inflow of $276 million for fiscal 2018, driven primarily by the net change in short-term investments. During fiscal 2019, the net change in investments (including sales, maturities and purchases) resulted in a cash inflow of $850 million compared to an inflow of $1,326 million in fiscal 2018.

In fiscal 2020, we plan to continue investing in our infrastructure to support future growth, including corporate facilities, expanding our digital capabilities and new NIKE Direct stores. We continue to expect such investments to approximate 3% to 4% of revenues, on average.

Cash used by financing activities was $5,293 million for fiscal 2019 compared to $4,835 million for fiscal 2018 with the increase primarily impacted by the repayment of *Notes payable* during fiscal 2019.

In fiscal 2019, we purchased 54.3 million shares of NIKE's Class B Common Stock for $4,283 million (an average price of $78.86 per share). During the third quarter of fiscal 2019, we concluded the four-year, $12 billion program authorized by our Board of Directors in November 2015. Throughout this program we purchased a total of 192.1 million shares for $12 billion (an average price of $62.47 per share). Immediately following the completion of this program, we began repurchasing shares under the new four-year, $15 billion program authorized by our Board of Directors in June 2018.

As of May 31, 2019, we had repurchased 11.6 million shares at a cost of $986 million (an average price of $84.72 per share) under this new program. We continue to expect funding of share repurchases will come from operating cash flows, excess cash and/or proceeds from debt. The timing and the amount of share repurchases will be dictated by our capital needs and stock market conditions.

CAPITAL RESOURCES

On July 21, 2016, we filed a shelf registration statement (the "Shelf") with the SEC which permits us to issue an unlimited amount of debt securities from time to time. The Shelf expired on July 21, 2019 and we plan to file a new shelf registration statement with the SEC in July 2019. For additional information regarding our long-term debt refer to Note 8 — Long-Term Debt in the accompanying Notes to the Consolidated Financial Statements.

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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. As of and for the periods ended May 31, 2019 and 2018, we had no amounts outstanding under the 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 ratings were to decline, the facility fee and interest rate under our committed credit facility would increase. Conversely, if our long-term debt ratings were to improve, the facility fee and interest rate would decrease. Changes in our long-term debt ratings would not trigger acceleration of maturity of any then-outstanding borrowings or any future borrowings under the committed credit facility. Under this 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 limits 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 May 31, 2019, 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. On June 1, 2018, we repaid $325 million and had no additional borrowings under this program as of and for the year ended May 31, 2019. We may continue to issue commercial paper or other debt securities 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.

To date, in fiscal 2019, we have not experienced difficulty accessing the credit markets or incurred higher interest costs; however, future volatility in the capital markets may increase costs associated with issuing commercial paper or other debt instruments or affect our ability to access those markets.

As of May 31, 2019, we had cash, cash equivalents and short-term investments totaling $4.7 billion, primarily consisting 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 May 31, 2019, the weighted-average days to maturity of our cash equivalents and short-term investments portfolio was 32 days.

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.

OFF-BALANCE SHEET ARRANGEMENTS

In connection with various contracts and agreements, we routinely provide indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where we are acting as the guarantor. Currently, we have several such agreements in place. Based on our historical experience and the estimated probability of future loss, we have determined that the fair value of such indemnification is not material to our financial position or results of operations.

CONTRACTUAL OBLIGATIONS

Our significant long-term contractual obligations as of May 31, 2019, and significant endorsement contracts, including related marketing commitments, entered into through the date of this report are as follows:

DESCRIPTION OF COMMITMENT	**CASH PAYMENTS DUE DURING THE YEAR ENDING MAY 31,**						
(Dollars in millions)	**2020**	**2021**	**2022**	**2023**	**2024**	**THEREAFTER**	**TOTAL**
Operating Leases	$ 553	$ 513	$ 441	$ 386	$ 345	$ 1,494	$ 3,732
Capital Leases and Other Financing Obligations (1)	32	34	40	37	34	197	374
Long-Term Debt (2)	115	112	109	609	98	4,617	5,660
Endorsement Contracts (3)	1,382	1,274	1,360	1,077	968	4,148	10,209

Product Purchase Obligations (4)	5,203	—	—	—	—	—	5,203
Other Purchase Obligations (5)	1,331	411	225	166	135	492	2,760
Transition Tax Related to the Tax Act (6)	86	86	86	86	161	483	988
TOTAL	**$ 8,702**	**$ 2,430**	**$ 2,261**	**$ 2,361**	**$ 1,741**	**$ 11,431**	**$ 28,926**

(1) Capital leases and other financing obligations include payments related to build-to-suit lease arrangements.

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(2) The cash payments due for long-term debt include estimated interest payments. Estimates of interest payments are based on outstanding principal amounts, applicable fixed interest rates or currently effective interest rates as of May 31, 2019 (if variable), timing of scheduled payments and the term of the debt obligations.

(3) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, public figure, 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.

(4) We generally order product at least four to five months in advance of sale based primarily on advanced orders received from external wholesale customers and internal orders from our NIKE Direct in-line stores and digital commerce operations. The amounts listed for product purchase obligations represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and specify all significant terms. In some cases, prices are subject to change throughout the production process.

(5) Other purchase obligations primarily include construction, service and marketing commitments, including marketing commitments associated with endorsement contracts, made in the ordinary course of business. The amounts represent the minimum payments required by legally binding contracts and agreements that specify all significant terms, including open purchase orders for non-product purchases.

(6) Represents the future cash payments due as part of the transition tax on deemed repatriation of undistributed earnings of foreign subsidiaries, which is reflected net of foreign tax credits we utilized. Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

In addition to the above, we have long-term obligations for uncertain tax positions and various post-retirement benefits for which we are not able to reasonably estimate when cash payments will occur. Refer to Note 9 — Income Taxes and Note 13 — Benefit Plans in the accompanying Notes to the Consolidated Financial Statements for further information related to uncertain tax positions and post-retirement benefits, respectively.

We also have the following outstanding short-term debt obligations as of May 31, 2019. Refer to Note 7 — Short-Term Borrowings and Credit Lines in the accompanying Notes to the Consolidated Financial Statements for further description and interest rates related to the short-term debt obligations listed below.

(Dollars in millions)	**AS OF MAY 31, 2019**
Notes payable, due at mutually agreed-upon dates within one year of issuance or on demand	$ 9
Payable to Sojitz America for the purchase of inventories, generally due 60 days after shipment of goods from a foreign port	$ 75

As of May 31, 2019, the Company had bank guarantees and letters of credit outstanding totaling $215 million, issued primarily for real estate agreements, self-insurance programs and other general business obligations.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for recently adopted and recently issued accounting standards.

CRITICAL ACCOUNTING POLICIES

Our previous discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

We believe the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our Consolidated Financial Statements, so we consider these to be our critical accounting policies and estimates. Management has reviewed and discussed these critical accounting policies with the Audit & Finance Committee of the Board of Directors.

These policies require that we make estimates in the preparation of our Consolidated Financial Statements as of a given date. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

REVENUE RECOGNITION

On June 1, 2018, we adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method of adoption. Prior period amounts have not been restated and continue to be reported in accordance with our historical accounting policies. Our revenue recognition polices under Topic 606 are described in the following paragraphs and references to prior period policies under Accounting Standard Codification Topic 605 — *Revenue Recognition,* are included below in the event they are substantially different.

Revenue transactions associated with the sale of NIKE Brand footwear, apparel and equipment, as well as Converse products, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. We satisfy the performance obligation and record revenues when transfer of control has passed to the customer, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product. Transfer of control passes to wholesale customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. Control passes to retail store customers at the time of sale and to substantially all digital commerce customers upon shipment. Prior to June 1, 2018, the requirements for recognizing revenue were met upon delivery to the customer. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers. Payment terms for wholesale transactions depend on the country of sale or agreement with the customer and payment is generally required within 90 days or less of shipment to or receipt by the wholesale customer. Payment is due at the time of sale for retail store and digital commerce transactions.

As part of our revenue recognition policy, consideration promised in our contracts with customers is variable due to anticipated reductions such as sales returns, discounts and miscellaneous claims from customers. We estimate the most likely amount we will be entitled to receive and record an anticipated reduction against *Revenues,* with an offsetting increase to *Accrued liabilities* at the time revenues are recognized. The estimated cost of inventory for product returns is recorded in *Prepaid expenses and other current assets* on the Consolidated Balance Sheets. Prior to June 1, 2018, the Company's reserve balances were reported net of the estimated cost of inventory for product returns and recognized within *Accounts receivable, ne*t for wholesale transactions and *Accrued liabilities* for our direct to consumer business, on the Consolidated Balance Sheets.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly different than reserves established, a reduction or increase to net revenues would be recorded in the period in which such determination was made.

Refer also to Note 1 — Summary of Significant Accounting Policies and Note 16 — Revenues for additional information in the accompanying Notes to the Consolidated Financial Statements.

INVENTORY RESERVES

We also make ongoing estimates relating to the net realizable value of inventories based upon our assumptions about future demand and market conditions. If we estimate the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated net realizable value. This reserve is recorded as a charge to *Cost of sales*. If changes in market conditions result in reductions to the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination.

CONTINGENT PAYMENTS UNDER ENDORSEMENT CONTRACTS

A significant amount of our *Demand creation expense* relates to payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g., winning a championship). We record demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When we determine payments are probable, the amounts are reported in *Demand creation expense* ratably over the contract period based on our best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from our estimate due to changes in the endorser's performance, adjustments to *Demand creation expense* may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which we record in *Cost of sales* as the related sales occur. For contracts containing minimum guaranteed royalty payments, we record the amount of any guaranteed payment in excess of that earned through sales of product within *Demand creation expense*.

PROPERTY, PLANT AND EQUIPMENT AND DEFINITE-LIVED ASSETS

We review the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies that would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

HEDGE ACCOUNTING FOR DERIVATIVES

We use derivative contracts to hedge certain anticipated foreign currency and interest rate transactions as well as certain non-functional currency monetary assets and liabilities. When the specific criteria to qualify for hedge accounting has been met, changes in the fair value of contracts hedging probable forecasted future cash flows are recorded in *Accumulated other comprehensive income (loss)*, rather than *Net income*, until the underlying hedged transaction affects *Net income*. In most cases, this results in gains and losses on hedge derivatives being released from *Accumulated other comprehensive income (loss)* into *Net income* sometime after the maturity of the derivative. One of the criteria for this accounting treatment is that the notional value of these derivative contracts should not be in excess of specifically identified anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When anticipated transaction estimates or actual transaction amounts decline below hedged levels, or if it is no longer probable a forecasted transaction will occur by the end of the originally specified time period or within an additional two-month period of time thereafter, we are required to reclassify the cumulative change in fair value of the over-hedged portion of the related hedge contract from *Accumulated other comprehensive income (loss)* to *Other (income) expense, net* during the quarter in which the decrease occurs.

INCOME TAXES

We are subject to taxation in the United States, as well as various state and foreign jurisdictions. The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. On an interim basis, we estimate our effective tax rate for the full fiscal year. This estimated annual effective tax rate is then applied to the year-to-date *Income before income taxes* excluding infrequently occurring or unusual items, to determine the year-to-date *Income tax expense*. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs.

We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets (such as net operating loss carry-forwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our net deferred tax asset, which increases our *Income tax expense* in the period when such determination is made.

On a quarterly basis, we evaluate the probability a tax position will be effectively sustained and the appropriateness of the amount recognized for uncertain tax positions based on factors including changes in facts or circumstances, changes in tax law, settled audit issues and new audit activity. Changes in our assessment may result in the recognition of a tax benefit or an additional charge to the tax provision in the period our assessment changes. We recognize interest and penalties related to income tax matters in *Income tax expense*.

On December 22, 2017, the United States enacted the Tax Act, which significantly changed previous U.S. tax laws, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings, and a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, among other changes. The Tax Act also transitions U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which has the effect of subjecting certain earnings of our foreign subsidiaries to U.S. taxation. Certain provisions of the Tax Act, including a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries, were not effective for the Company until fiscal 2019. In accordance with U.S. GAAP, the Company has made an accounting policy election to treat taxes due under the GILTI provision as a current period expense.

Implementation of the Tax Act required us to record incremental provisional tax expense in fiscal 2018, which increased our effective tax rate in fiscal 2018. We completed our analysis of the Tax Act in the second quarter of fiscal 2019 and no adjustments were made to the provisional amounts recorded.

Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

OTHER CONTINGENCIES

In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. If future adjustments to estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred. In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility the ultimate loss will materially exceed the recorded liability. While we cannot predict the outcome of pending legal matters with certainty, we do not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on our results of operations, financial position or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business and consistent with established policies and procedures, we employ a variety of financial instruments to manage exposure to fluctuations in the value of foreign currencies and interest rates. It is our policy to utilize these financial instruments only where necessary to finance our business and manage such exposures; we do not enter into these transactions for trading or speculative purposes.

We are exposed to foreign currency fluctuations, primarily as a result of our international sales, product sourcing and funding activities. 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 use forward and option contracts to hedge certain anticipated, but not yet firmly committed, transactions as well as certain firm commitments and the related receivables and payables, including third-party and intercompany transactions. We have, in the past, and may in the future, also use forward or options contracts to hedge our investment in the net assets of certain international subsidiaries to offset foreign currency translation adjustments related to our net investment in those subsidiaries. Where exposures are hedged, our program has the effect of delaying the impact of exchange rate movements on our Consolidated Financial Statements.

The timing for hedging exposures, as well as the type and duration of the hedge instruments employed, are guided by our hedging policies and determined based upon the nature of the exposure and prevailing market conditions. 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 majority of derivatives outstanding as of May 31, 2019 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Chinese Yuan/U.S. Dollar and Japanese Yen/U.S. Dollar currency pairs. Refer to Note 14 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional information.

Our earnings are also exposed to movements in short- and long-term market interest rates. Our objective in managing this interest rate exposure is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve these objectives, we maintain a mix of commercial paper, bank loans, and fixed-rate debt of varying maturities.

MARKET RISK MEASUREMENT

We monitor foreign exchange risk, interest rate risk and related derivatives using a variety of techniques including a review of market value, sensitivity analysis and Value-at-Risk (“VaR”). Our market-sensitive derivative and other financial instruments are foreign currency forward contracts, foreign currency option contracts, interest rate swaps, intercompany loans denominated in non-functional currencies, fixed interest rate U.S. Dollar denominated debt and fixed interest rate Japanese Yen denominated debt.

We use VaR to monitor the foreign exchange risk of our foreign currency forward and foreign currency option derivative instruments only. The VaR determines the maximum potential one-day loss in the fair value of these foreign exchange rate-sensitive financial instruments. The VaR model estimates assume normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the VaR computation. Our computations are based on interrelationships between currencies and interest rates (a “variance/co-variance” technique). These interrelationships are a function of foreign exchange currency market changes and interest rate changes over the preceding one-year period. The value of foreign currency options does not change on a one-to-one basis with changes in the underlying currency rate. We adjust the potential loss in option value for the estimated sensitivity (the “delta” and “gamma”) to changes in the underlying currency rate. This calculation reflects the impact of foreign currency rate fluctuations on the derivative instruments only and does not include the impact of such rate fluctuations on non-functional currency transactions (such as anticipated transactions, firm commitments, cash balances and accounts and loans receivable and payable), including those which are hedged by these instruments.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value we will incur nor does it consider the potential effect of favorable changes in market rates. It also does not represent the full extent of the possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in fair value on our foreign currency sensitive derivative financial instruments, derived using the VaR model, was $34 million and $93 million at May 31, 2019 and 2018, respectively. The VAR decreased year-over-year as a result of a decrease in foreign currency volatilities at May 31, 2019. Such a hypothetical loss in the fair value of our derivatives would be offset by increases in the value of the underlying transactions being hedged. The average monthly change in the fair values of foreign currency forward and foreign currency option derivative instruments was $83 million and $260 million during fiscal 2019 and fiscal 2018, respectively.

The instruments not included in the VaR are intercompany loans denominated in non-functional currencies, fixed interest rate Japanese Yen denominated debt, fixed interest rate U.S. Dollar denominated debt and interest rate swaps. Intercompany loans and related interest amounts are eliminated in consolidation. Furthermore, our non-functional currency intercompany loans are substantially hedged against foreign exchange risk through the use of forward contracts, which are included in the VaR calculation above. Therefore, we consider the interest rate and foreign currency market risks associated with our non-functional currency intercompany loans to be immaterial to our consolidated financial position, results from operations and cash flows.

Details of third-party debt are provided in the table below. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

	EXPECTED MATURITY DATE YEAR ENDING MAY 31,							
(Dollars in millions)	**2020**	**2021**	**2022**	**2023**	**2024**	**THEREAFTER**	**TOTAL**	**FAIR VALUE**
Foreign Exchange Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$ 6	$ 3	$ —	$ —	$ —	$ —	$ 9	$ 9
Average interest rate	2.4 %	2.4 %	0.0 %	0.0 %	0.0 %	0.0 %	2.4 %	
Interest Rate Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$ 6	$ 3	$ —	$ —	$ —	$ —	$ 9	$ 9
Average interest rate	2.4 %	2.4 %	0.0 %	0.0 %	0.0 %	0.0 %	2.4 %	
U.S. Dollar Functional Currency								
Long-term U.S. Dollar debt — Fixed rate								
Principal payments	$ —	$ —	$ —	$ 500	$ —	$ 3,000	$ 3,500	$ 3,515
Average interest rate	0.0 %	0.0 %	0.0 %	2.3 %	0.0 %	3.3 %	3.1 %	

The fixed interest rate Japanese Yen denominated debt instruments were issued by and are accounted for by one of our Japanese subsidiaries. Accordingly, the monthly translation of these instruments, which varies due to changes in foreign exchange rates, is recognized in *Accumulated other comprehensive income (loss)* upon consolidation of this subsidiary.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management of NIKE, Inc. is responsible for the information and representations contained in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include certain amounts based on our best estimates and judgments. Other financial information in this report is consistent with these financial statements.

Our accounting systems include controls designed to reasonably assure assets are safeguarded from unauthorized use or disposition and provide for the preparation of financial statements in conformity with U.S. GAAP. These systems are supplemented by the selection and training of qualified financial personnel and an organizational structure providing for appropriate segregation of duties.

An internal corporate audit department reviews the results of its work with the Audit & Finance Committee of the Board of Directors, presently comprised of three outside, independent directors. The Audit & Finance Committee is responsible for the appointment of the independent registered public accounting firm and reviews, with the independent registered public accounting firm, management and the internal corporate audit staff, the scope and the results of the annual audit, the effectiveness of the accounting control system and other matters relating to the financial affairs of NIKE as the Audit & Finance Committee deems appropriate. The independent registered public accounting firm and the internal corporate auditors have full access to the Audit & Finance Committee, with and without the presence of management, to discuss any appropriate matters.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a) - 15(f) and Rule 15(d) - 15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets of the Company that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of May 31, 2019.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited (1) the Consolidated Financial Statements and (2) the effectiveness of our internal control over financial reporting as of May 31, 2019, as stated in their report herein.

Mark G. Parker
Chairman, President and Chief Executive Officer

Andrew Campion
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NIKE, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NIKE, Inc. and its subsidiaries (the "Company") as of May 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended May 31, 2019, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of May 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers and the manner in which it accounts for income taxes related to intra-entity transfers other than inventory as of June 1, 2018 and the manner in which it accounts for share-based payment awards to employees as of June 1, 2017.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 23, 2019

We have served as the Company's auditor since 1974.

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NIKE, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	YEAR ENDED MAY 31, 2019	2018	2017
Revenues	$ 39,117	$ 36,397	$ 34,350
Cost of sales	21,643	20,441	19,038
Gross profit	17,474	15,956	15,312
Demand creation expense	3,753	3,577	3,341
Operating overhead expense	8,949	7,934	7,222
Total selling and administrative expense	12,702	11,511	10,563
Interest expense (income), net	49	54	59
Other (income) expense, net	(78)	66	(196)
Income before income taxes	4,801	4,325	4,886
Income tax expense	772	2,392	646
NET INCOME	**$ 4,029**	**$ 1,933**	**$ 4,240**
Earnings per common share:			
Basic	$ 2.55	$ 1.19	$ 2.56
Diluted	$ 2.49	$ 1.17	$ 2.51
Weighted average common shares outstanding:			
Basic	1,579.7	1,623.8	1,657.8
Diluted	1,618.4	1,659.1	1,692.0

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

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NIKE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2019**	**2018**	**2017**
Net income	$ 4,029	$ 1,933	$ 4,240
Other comprehensive income (loss), net of tax:			
Change in net foreign currency translation adjustment	(173)	(6)	16
Change in net gains (losses) on cash flow hedges	503	76	(515)
Change in net gains (losses) on other	(7)	34	(32)
Total other comprehensive income (loss), net of tax	323	104	(531)
TOTAL COMPREHENSIVE INCOME	**$ 4,352**	**$ 2,037**	**$ 3,709**

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

NIKE, INC.

CONSOLIDATED BALANCE SHEETS

	MAY 31,	
(Dollars in millions)	**2019**	**2018**
ASSETS		
Current assets:		
Cash and equivalents	$ 4,466	$ 4,249
Short-term investments	197	996
Accounts receivable, net	4,272	3,498
Inventories	5,622	5,261
Prepaid expenses and other current assets	1,968	1,130
Total current assets	16,525	15,134
Property, plant and equipment, net	4,744	4,454
Identifiable intangible assets, net	283	285
Goodwill	154	154
Deferred income taxes and other assets	2,011	2,509
TOTAL ASSETS	**$ 23,717**	**$ 22,536**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 6	$ 6
Notes payable	9	336
Accounts payable	2,612	2,279
Accrued liabilities	5,010	3,269
Income taxes payable	229	150
Total current liabilities	7,866	6,040
Long-term debt	3,464	3,468
Deferred income taxes and other liabilities	3,347	3,216
Commitments and contingencies (Note 18)		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 315 and 329 shares outstanding	—	—
Class B — 1,253 and 1,272 shares outstanding	3	3
Capital in excess of stated value	7,163	6,384
Accumulated other comprehensive income (loss)	231	(92)
Retained earnings	1,643	3,517
Total shareholders' equity	9,040	9,812
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 23,717**	**$ 22,536**

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

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NIKE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED MAY 31,		
(Dollars in millions)	**2019**	**2018**	**2017**
Cash provided by operations:			
Net income	$ 4,029	$ 1,933	$ 4,240
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	705	747	706
Deferred income taxes	34	647	(273)
Stock-based compensation	325	218	215
Amortization and other	15	27	10
Net foreign currency adjustments	233	(99)	(117)
Changes in certain working capital components and other assets and liabilities:			
(Increase) decrease in accounts receivable	(270)	187	(426)
(Increase) decrease in inventories	(490)	(255)	(231)
(Increase) decrease in prepaid expenses and other current and non-current assets	(203)	35	(120)
Increase (decrease) in accounts payable, accrued liabilities and other current and non-current liabilities	1,525	1,515	(158)
Cash provided by operations	5,903	4,955	3,846
Cash provided (used) by investing activities:			
Purchases of short-term investments	(2,937)	(4,783)	(5,928)
Maturities of short-term investments	1,715	3,613	3,623
Sales of short-term investments	2,072	2,496	2,423
Additions to property, plant and equipment	(1,119)	(1,028)	(1,105)
Disposals of property, plant and equipment	5	3	13
Other investing activities	—	(25)	(34)
Cash provided (used) by investing activities	(264)	276	(1,008)
Cash used by financing activities:			
Net proceeds from long-term debt issuance	—	—	1,482
Long-term debt payments, including current portion	(6)	(6)	(44)
Increase (decrease) in notes payable	(325)	13	327
Payments on capital lease and other financing obligations	(27)	(23)	(17)
Proceeds from exercise of stock options and other stock issuances	700	733	489
Repurchase of common stock	(4,286)	(4,254)	(3,223)
Dividends — common and preferred	(1,332)	(1,243)	(1,133)
Tax payments for net share settlement of equity awards	(17)	(55)	(29)
Cash used by financing activities	(5,293)	(4,835)	(2,148)
Effect of exchange rate changes on cash and equivalents	(129)	45	(20)
Net increase (decrease) in cash and equivalents	217	441	670
Cash and equivalents, beginning of year	4,249	3,808	3,138
CASH AND EQUIVALENTS, END OF YEAR	**$ 4,466**	**$ 4,249**	**$ 3,808**
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 153	$ 125	$ 98

Income taxes	757	529	703
Non-cash additions to property, plant and equipment	160	294	266
Dividends declared and not paid	347	320	300

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

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NIKE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK				CAPITAL IN EXCESS OF STATED VALUE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	TOTAL
	CLASS A		CLASS B					
(In millions, except per share data)	SHARES	AMOUNT	SHARES	AMOUNT				
Balance at May 31, 2016	**353**	**$ —**	**1,329**	**$ 3**	**$ 5,038**	**$ 318**	**$ 6,899**	**$ 12,258**
Stock options exercised			17		525			525
Conversion to Class B Common Stock	(24)		24					—
Repurchase of Class B Common Stock			(60)		(189)		(3,060)	(3,249)
Dividends on common stock ($0.70 per share) and preferred stock ($0.10 per share)							(1,159)	(1,159)
Issuance of shares to employees, net of shares withheld for employee taxes			4		121		(13)	108
Stock-based compensation					215			215
Net income							4,240	4,240
Other comprehensive income (loss)						(531)		(531)
Balance at May 31, 2017	**329**	**$ —**	**1,314**	**$ 3**	**$ 5,710**	**$ (213)**	**$ 6,907**	**$ 12,407**
Stock options exercised			24		600			600
Repurchase of Class B Common Stock			(70)		(254)		(4,013)	(4,267)
Dividends on common stock ($0.78 per share) and preferred stock ($0.10 per share)							(1,265)	(1,265)
Issuance of shares to employees, net of shares withheld for employee taxes			4		110		(28)	82
Stock-based compensation					218			218
Net income							1,933	1,933
Other comprehensive income (loss)						104		104
Reclassifications to retained earnings in accordance with ASU 2018-02 (Note 1)						17	(17)	—
Balance at May 31, 2018	**329**	**$ —**	**1,272**	**$ 3**	**$ 6,384**	**$ (92)**	**$ 3,517**	**$ 9,812**
Stock options exercised			18		539			539
Conversion to Class B Common Stock	(14)		14					—
Repurchase of Class B Common Stock			(54)		(227)		(4,056)	(4,283)
Dividends on common stock ($0.86 per share) and preferred stock ($0.10 per share)							(1,360)	(1,360)
			3		142		(3)	139

Issuance of shares to employees, net of shares withheld for employee taxes								
Stock-based compensation					325			325
Net income							4,029	4,029
Other comprehensive income (loss)						323		323
Adoption of ASU 2016-16 (Note 1)							(507)	(507)
Adoption of ASC Topic 606 (Note 1)							23	23
Balance at May 31, 2019	**315**	**$ —**	**1,253**	**$ 3**	**$ 7,163**	**$ 231**	**$ 1,643**	**$ 9,040**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across a wide range of sport categories, amplified with sport-inspired sportswear products carrying the Swoosh trademark, as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories using the Jumpman trademark. Sales and operating results of Jordan Brand products are reported within the respective NIKE Brand geographic operating segments. The Hurley brand is focused on action sports and youth lifestyle apparel and accessories under the Hurley trademark. Sales and operating results of Hurley brand products are reported within the NIKE Brand's North America geographic operating segment. Converse designs, distributes, licenses and sells casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. In some markets outside the U.S., these trademarks are licensed to third parties who design, distribute, market and sell similar products. Operating results of the Converse brand are reported on a stand-alone basis.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of NIKE, Inc. and its subsidiaries (the "Company" or "NIKE"). All significant intercompany transactions and balances have been eliminated.

REVENUE RECOGNITION

Beginning in fiscal 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Prior period amounts have not been restated and continue to be reported in accordance with the Company's historical accounting policies. The Company's revenue recognition polices under Topic 606 are described in the following paragraphs and references to prior period policies under Accounting Standard Codification Topic 605 — *Revenue Recognition* (Topic 605), are included below in the event they are substantially different.

Revenue transactions associated with the sale of NIKE Brand footwear, apparel and equipment, as well as Converse products, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. The Company satisfies the performance obligation and records revenues when transfer of control has passed to the customer, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product.

Transfer of control passes to wholesale customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. Control passes to retail store customers at the time of sale and to substantially all digital commerce customers upon shipment. Prior to June 1, 2018, the requirements for recognizing revenue were met upon delivery to the customer. The transaction price is determined based upon the invoiced sales price, less anticipated sales returns, discounts and miscellaneous claims from customers. Payment terms for wholesale transactions depend on the country of sale or agreement with the customer and payment is generally required within 90 days or less of shipment to or receipt by the wholesale customer. Payment is due at the time of sale for retail store and digital commerce transactions.

Consideration for trademark licensing contracts is earned through sales-based or usage-based royalty arrangements and the associated revenues are recognized over the license period.

Taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction, and are collected by the Company from a customer, are excluded from *Revenues* and *Cost of sales* in the Consolidated Statements of Income. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in *Cost of sales* when the related revenue is recognized.

SALES-RELATED RESERVES

Consideration promised in the Company's contracts with customers is variable due to anticipated reductions such as sales returns, discounts and miscellaneous claims from customers. The Company estimates the most likely amount it will be entitled to receive and records an anticipated reduction against *Revenues*, with an offsetting increase to *Accrued liabilities* at the time revenues are recognized. The estimated cost of inventory for product returns is recorded in *Prepaid expenses and other current assets* on the Consolidated Balance Sheets. Prior to June 1, 2018, the Company's reserve balances were reported net of the estimated cost of inventory for product returns and recognized within *Accounts receivable, net* for wholesale transactions and *Accrued liabilities* for the Company's direct to consumer business, on the Consolidated Balance Sheets.

The provision for anticipated sales returns consists of both contractual return rights and discretionary authorized returns. Provisions for post-invoice sales discounts consist of both contractual programs and discretionary discounts that are expected to be granted at a later date.

Estimates of discretionary authorized returns, discounts and claims are based on (1) historical rates, (2) specific identification of outstanding returns not yet received from customers and outstanding discounts and claims and (3) estimated returns, discounts and claims expected, but not yet finalized with customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from estimates recorded. If actual or expected future returns, discounts or claims were significantly greater or lower than the reserves established, a reduction or increase to net revenues would be recorded in the period in which such determination was made.

COST OF SALES

Cost of sales consists primarily of inventory costs, as well as warehousing costs (including the cost of warehouse labor), third-party royalties, certain foreign currency hedge gains and losses and product design costs. Shipping and handling costs are expensed as incurred and included in *Cost of sales*.

DEMAND CREATION EXPENSE

Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, complimentary product, television, digital and print advertising and media costs, brand events and retail brand presentation. Advertising production costs are expensed the first time an advertisement is run. Advertising media costs are expensed when the advertisement appears. Costs related to brand events are expensed when the event occurs. Costs related to retail brand presentation are expensed when the presentation is complete and delivered.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract. Prepayments made under contracts are included in *Prepaid expenses and other current assets* or *Deferred income taxes and other assets* depending on the period to which the prepayment applies.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sport (e.g., winning a championship). The Company records *Demand creation expense* for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When the Company determines payments are probable, the amounts are reported in *Demand creation expense* ratably over the contract period based on the Company's best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from the Company's estimate due to changes in the endorser's performance, adjustments to *Demand creation expense* may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products, which the Company records in *Cost of sales* as the related sales occur. For contracts containing minimum guaranteed royalty payments, the Company records the amount of any guaranteed payment in excess of that earned through sales of product within *Demand creation expense*.

Through cooperative advertising programs, the Company reimburses its wholesale customers for certain costs of advertising the Company's products. The Company records these costs in *Demand creation expense* at the point in time when it is obligated to its customers for the costs. This obligation may arise prior to the related advertisement being run.

Total advertising and promotion expenses, which the Company refers to as *Demand creation expense*, were $3,753 million, $3,577 million and $3,341 million for the years ended May 31, 2019, 2018 and 2017, respectively. Prepaid advertising and promotion expenses totaled $773 million and $730 million at May 31, 2019 and 2018, respectively, of which $333 million and $359 million, respectively, was recorded in *Prepaid expenses and other current assets*, and $440 million and $371 million, respectively, was recorded in *Deferred income taxes and other assets*, depending on the period to which the prepayment applied.

OPERATING OVERHEAD EXPENSE

Operating overhead expense consists primarily of wage and benefit-related expenses, research and development costs, as well as other administrative expenses, such as rent, depreciation and amortization, professional services, meetings and travel.

CASH AND EQUIVALENTS

Cash and equivalents represent cash and short-term, highly liquid investments, that are both readily convertible to known amounts of cash, and so near their maturity they present insignificant risk of changes in value because of changes in interest rates, including commercial paper, U.S. Treasury, U.S. Agency, money market funds, time deposits and corporate debt securities with maturities of 90 days or less at the date of purchase.

SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid investments, including commercial paper, U.S. Treasury, U.S. Agency, time deposits and corporate debt securities, with maturities over 90 days at the date of purchase. Debt securities the Company has the ability and positive intent to hold to maturity are carried at amortized cost. At May 31, 2019 and 2018, the Company did not hold any short-term investments classified as trading or held-to-maturity.

At May 31, 2019 and 2018, *Short-term investments* consisted of available-for-sale debt securities, which are recorded at fair value with unrealized gains and losses reported, net of tax, in *Accumulated other comprehensive income (loss)*, unless unrealized losses are determined to be other than temporary. Realized gains and losses on the sale of securities are determined by specific identification. The Company considers all available-for-sale debt securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and, therefore, classifies all securities with maturity dates beyond 90 days at the date of purchase as current assets within *Short-term investments* on the Consolidated Balance Sheets.

Refer to Note 6 — Fair Value Measurements for more information on the Company's short-term investments.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Accounts receivable, net consist primarily of amounts receivable from customers. The Company makes ongoing estimates relating to the collectability of its accounts receivable and maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. In determining the amount of the allowance, the Company considers historical levels of credit losses and makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Accounts receivable with anticipated collection dates greater than 12 months from the balance sheet date and related allowances are considered non-current and recorded in *Deferred income taxes and other assets*. The allowance for uncollectible accounts receivable was $30 million at both May 31, 2019 and 2018.

INVENTORY VALUATION

Inventories are stated at lower of cost and net realizable value, and valued on either an average or a specific identification cost basis. In some instances, we ship product directly from our supplier to the customer, with the related inventory and cost of sales recognized on a specific identification basis. Inventory costs primarily consist of product cost from the Company's suppliers, as well as inbound freight, import duties, taxes, insurance and logistics and other handling fees.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost. Depreciation is determined on a straight-line basis for land improvements, buildings and leasehold improvements over 2 to 40 years and for machinery and equipment over 2 to 15 years.

Depreciation and amortization of assets used in manufacturing, warehousing and product distribution are recorded in *Cost of sales*. Depreciation and amortization of all other assets are recorded in *Operating overhead expense*.

SOFTWARE DEVELOPMENT COSTS

Internal Use Software: Expenditures for major software purchases and software developed for internal use are capitalized and amortized over a 2 to 12-year period on a straight-line basis. The Company's policy provides for the capitalization of external direct costs associated with developing or obtaining internal use computer software. In addition, the Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer software projects. The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred.

Computer Software to be Sold, Leased or Otherwise Marketed: Development costs of computer software to be sold, leased or otherwise marketed as an integral part of a product are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established. Therefore, software development costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally most software development costs have been expensed as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

The Company performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or an intangible asset with an indefinite life below its carrying value. Events or changes in circumstances that may trigger interim impairment reviews include significant changes in business climate, operating results, planned investments in the reporting unit, planned divestitures or an expectation that the carrying amount may not be recoverable, among other factors. The Company may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, an impairment test is unnecessary. If an impairment test is necessary, the Company will estimate the fair value of its related reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is determined to be impaired and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

Indefinite-lived intangible assets primarily consist of acquired trade names and trademarks. The Company may first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the indefinite-lived intangible asset is not impaired, no quantitative fair value measurement is necessary. If a quantitative fair value measurement calculation is required for these intangible assets, the Company primarily utilizes the relief-from-royalty method. This method assumes trade names and trademarks have value to the extent their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires the Company to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital. If the carrying value of the indefinite-lived intangible exceeds its fair value, the asset is determined to be impaired and the Company will proceed with recording an impairment charge equal to the excess of the carrying value over the related fair value.

OPERATING LEASES

The Company leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets under operating leases. Operating lease agreements may contain rent escalation clauses, renewal options, rent holidays or certain landlord incentives, including tenant improvement allowances. Rent expense for non-cancelable operating leases with scheduled rent increases or landlord incentives are recognized on a straight-line basis over the lease term, beginning with the effective lease commencement date, which is generally the date in which the Company takes possession of or controls the physical use of the property. Certain leases also provide for contingent rent, which is generally determined as a percent of sales in excess of specified levels. A contingent rent liability is recognized together with the corresponding rent expense when specified levels have been achieved or when the Company determines that achieving the specified levels during the period is probable.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivatives, equity securities and available-for-sale debt 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 a three-level hierarchy established by the Financial Accounting Standards Board (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 or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs with 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 a majority of 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 its counterparties.

The Company's fair value measurement process includes comparing fair values to another independent pricing vendor to ensure appropriate fair values are recorded.

Refer to Note 6 — Fair Value Measurements for additional information.

FOREIGN CURRENCY TRANSLATION AND FOREIGN CURRENCY TRANSACTIONS

Adjustments resulting from translating foreign functional currency financial statements into U.S. Dollars are included in the foreign currency translation adjustment, a component of *Accumulated other comprehensive income (loss)* in *Total shareholders' equity*.

The Company's global subsidiaries have various assets and liabilities, primarily receivables and payables, which are denominated in currencies other than their functional currency. These balance sheet items are subject to re-measurement, the impact of which is recorded in *Other (income) expense, net*, within the Consolidated Statements of Income.

ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to reduce its exposure to changes in foreign currency exchange rates and interest rates. All derivatives are recorded at fair value on the Consolidated Balance Sheets and changes in the fair value of derivative financial instruments are either recognized in *Accumulated other comprehensive income (loss)* (a component of *Total shareholders' equity*), *Long-term debt* or *Net income* depending on the nature of the underlying exposure, whether the derivative is formally designated as a hedge and, if designated, the extent to which the hedge is effective. The Company classifies the cash flows at settlement from derivatives in the same category as the cash flows from the related hedged items. For undesignated hedges and designated cash flow hedges, this is primarily within the *Cash provided by operations* component of the

Consolidated Statements of Cash Flows. For designated net investment hedges, this is within the *Cash used by investing activities* component of the Consolidated Statements of Cash Flows. For the Company's fair value hedges, which are interest rate swaps used to mitigate the change in fair value of its fixed-rate debt attributable to changes in interest rates, the related cash flows from periodic interest payments are reflected within the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. Refer to Note 14 — Risk Management and Derivatives for additional information on the Company's risk management program and derivatives.

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation by estimating the fair value, net of estimated forfeitures, of equity awards and recognizing the related expense as *Cost of sales* or *Operating overhead expense*, as applicable, in the Consolidated Statements of Income on a straight-line basis over the vesting period. Substantially all awards vest ratably over four years of continued employment, with stock options expiring ten years from the date of grant. The fair value of options, stock appreciation rights, and employees' purchase rights under the employee stock purchase plans (ESPPs) is determined using the Black-Scholes option pricing model. The fair value of restricted stock and restricted stock units is established by the market price on the date of grant.

Refer to Note 11 — Common Stock and Stock-Based Compensation for additional information on the Company's stock-based compensation programs.

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company records a valuation allowance to reduce deferred tax assets to the amount management believes is more likely than not to be realized.

The Company recognizes a tax benefit from uncertain tax positions in the financial statements only when it is more likely than not the position will be sustained upon examination by relevant tax authorities. The Company recognizes interest and penalties related to income tax matters in *Income tax expense*.

Refer to Note 9 — Income Taxes for further discussion.

EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing *Net income* by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive stock options and awards.

Refer to Note 12 — Earnings Per Share for further discussion.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued Topic 606, which replaces existing revenue recognition guidance. The new standard 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, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard using a modified retrospective approach in the first quarter of fiscal 2019 with the cumulative effect of initially applying the standard recognized in *Retained earnings* at June 1, 2018. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in Topic 605. The Company has applied the new standard to all contracts at adoption.

The Company's adoption of Topic 606 resulted in a change to the timing of revenue recognition. The satisfaction of the Company's performance obligation is based upon transfer of control over a product to a customer, which results in sales being recognized upon shipment rather than upon delivery for certain wholesale transactions and substantially all digital commerce sales. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product. This resulted in a cumulative effect adjustment, which increased *Retained earnings* by $23 million at June 1, 2018. The adoption of Topic 606 did not have a material effect on the Consolidated Statements of Income for fiscal 2019.

Additionally, the Company's reserve balances for returns, post-invoice sales discounts and miscellaneous claims for wholesale transactions were previously reported net of the estimated cost of inventory for product returns, and as a reduction to *Accounts receivable, net* on the Consolidated Balance Sheets. Under Topic 606, an asset for the estimated cost of inventory for expected products returns is now recognized separately from the liability for sales-related reserves. This resulted in an increase to *Accounts receivable, net*, an increase in *Prepaid expenses and other current assets* and an increase in *Accrued liabilities* on the Consolidated Balance Sheets at May 31, 2019. Sales-related reserves for the Company's direct to consumer operations continue to be recognized in *Accrued liabilities*, but are now recorded separately from an asset for the estimated cost of inventory for expected product returns, which is recognized in *Prepaid expenses and other current assets*. The following table presents the related effect of the adoption of Topic 606 on the Consolidated Balance Sheets at May 31, 2019:

	AS OF MAY 31, 2019		
(Dollars in millions)	**AS REPORTED**	**EFFECT OF ADOPTION**	**BALANCES WITHOUT ADOPTION OF TOPIC 606**
Accounts receivable, net	$ 4,272	$ 782	$ 3,490
Prepaid expenses and other current assets	1,968	410	1,558
Total current assets	16,525	1,192	15,333
TOTAL ASSETS	**23,717**	**1,192**	**22,525**
Accrued liabilities	5,010	1,192	3,818
Total current liabilities	7,866	1,192	6,674
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 23,717**	**$ 1,192**	**$ 22,525**

Other impacts from the adoption of Topic 606 on the Consolidated Financial Statements were immaterial. Refer to Note 16 — Revenues for further discussion.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Loss)*. The standard allows for reclassification of stranded tax effects on items resulting from the Tax Cuts and Jobs Act (the "Tax Act") from *Accumulated other comprehensive income (loss)* to *Retained earnings*. Tax effects unrelated to the Tax Act are released from *Accumulated other comprehensive income (loss)* using either the specific identification approach or the portfolio approach based on the nature of the underlying item. The Company early adopted the ASU in the third quarter of fiscal 2018. As a result of the adoption, Retained earnings decreased by $17 million, with a corresponding increase to *Accumulated other comprehensive income (loss)* due to the reduction in the corporate tax rate from 35% to 21%. Refer to Note 9 — Income Taxes for additional information on the impact of the Tax Act.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which changes how companies account for certain aspects of share-based payment awards to employees. The Company adopted the ASU in the first quarter of fiscal 2018. The updated guidance requires excess tax benefits and deficiencies from share-based payment awards to be recorded in income tax expense in the income statement. Previously, excess tax benefits and deficiencies were recognized in shareholders' equity on the balance sheet. This change is required to be applied prospectively. During fiscal 2019 and fiscal 2018, the Company recognized $175 million and $230 million, respectively, of excess tax benefits related to share-based payment awards in *Income tax expense* in the Consolidated Statements of Income.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The updated guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company adopted the standard on June 1, 2018, using a modified retrospective approach, with the cumulative effect of applying the new standard recognized in *Retained earnings* at the date of adoption. The adoption resulted in reductions to *Retained earnings, Deferred income taxes and other assets*, and *Prepaid expenses and other current assets* of $507 million, $422 million and $45 million, respectively, and an increase in *Deferred income taxes and other liabilities* of $40 million on the Consolidated Balance Sheets.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company elected to early adopt the ASU in the first quarter of fiscal 2019 and the adoption of the new guidance did not have a material impact on the Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment,* which simplified the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill in measuring an impairment charge, previously Step 2 of the goodwill impairment test. Under the new standard, an impairment charge is recorded based on the excess of a reporting unit's carrying amount over its fair value, previously Step 1 of the goodwill impairment test. The guidance still allows companies to perform the optional qualitative assessment before determining whether to proceed to Step 1. The Company adopted the ASU in the first quarter of fiscal 2019 and the adoption of this standard did not 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 Company adopted the ASU in the first quarter of fiscal 2019 and the adoption of the new guidance did not have a material impact on the Consolidated Financial Statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which replaces existing lease accounting guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use (ROU) assets and corresponding lease liabilities on the balance sheet. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The new guidance will require the Company to continue to classify leases as either an operating or finance lease, with classification affecting the pattern of expense recognition in the income statement. In addition, the new standard requires enhanced disclosure surrounding the amount, timing and uncertainty of cash flows arising from leasing agreements. In July 2018, the FASB issued ASU No. 2018-11, which provides entities with an additional transition method to adopt Topic 842. Under the new transition method, an entity initially applies the new standard at the adoption date, versus at the beginning of the earliest period presented, and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company will elect this transition method at the adoption date of June 1, 2019.

Upon adoption, the Company will elect the package of transition practical expedients which would allow the Company to carry forward prior conclusions related to: (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for existing leases. Additionally, the Company will elect the practical expedient to not separate lease components from nonlease components for all real estate leases within the portfolio. The Company will make an accounting policy election to keep leases with an initial term of 12 months or less off the Consolidated Balance Sheets and will recognize related lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term.

In preparation for implementation, the Company has been executing changes to business processes, including implementing a software solution to assist with the new reporting requirements. Upon adoption, the Company's total assets and total liabilities will increase by approximately $2.8 billion. The Company does not believe the standard will have a material impact on the Consolidated Statements of Income or Consolidated Statements of Cash Flows.

NOTE 2 — INVENTORIES

Inventory balances of $5,622 million and $5,261 million at May 31, 2019 and 2018, respectively, were substantially all finished goods.

NOTE 3 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net included the following:

	AS OF MAY 31,	
(Dollars in millions)	2019	2018
Land and improvements	$ 329	$ 331
Buildings	2,445	2,195
Machinery, equipment and internal-use software	4,335	4,230
Leasehold improvements	1,563	1,494
Construction in process	797	641
Total property, plant and equipment, gross	9,469	8,891
Less accumulated depreciation	4,725	4,437
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,744**	**$ 4,454**

Capitalized interest was not material for the years ended May 31, 2019, 2018 and 2017.

NOTE 4 — IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets, net consist of indefinite-lived trademarks, acquired trademarks and other intangible assets. The following table summarizes the Company's *Identifiable intangible assets, net* balances as of May 31, 2019 and 2018:

	AS OF MAY 31,					
	2019			2018		
(Dollars in millions)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Indefinite-lived trademarks	$ 281	$ —	$ 281	$ 281	$ —	$ 281
Acquired trademarks and other	22	20	2	22	18	4
IDENTIFIABLE INTANGIBLE ASSETS, NET	**$ 303**	**$ 20**	**$ 283**	**$ 303**	**$ 18**	**$ 285**

Goodwill was $154 million at May 31, 2019 and 2018, of which $65 million was included in the Converse segment for both periods. The remaining amounts were included in Global Brand Divisions for segment reporting purposes. There were no accumulated impairment losses for goodwill as of either period end.

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NOTE 5 — ACCRUED LIABILITIES

Accrued liabilities included the following:

(Dollars in millions)	AS OF MAY 31, 2019	2018
Compensation and benefits, excluding taxes	$ 1,232	$ 897
Sales-related reserves(1)	1,218	20
Endorsement compensation	424	425
Dividends payable	346	320
Import and logistics costs	296	268
Collateral received from counterparties to hedging instruments	289	23
Taxes other than income taxes payable	234	224
Advertising and marketing	114	140
Fair value of derivatives	52	184
Other(2)	805	768
TOTAL ACCRUED LIABILITIES	**$ 5,010**	**$ 3,269**

(1) Sales-related reserves as of May 31, 2019 reflect the Company's fiscal 2019 adoption of Topic 606. As of May 31, 2018, Sales-related reserves reflect the Company's prior accounting under Topic 605. Refer to Note 1 — Summary of Significant Accounting Policies for additional information on the adoption of the new standard.

(2) Other consists of various accrued expenses with no individual item accounting for more than 5% of the total Accrued liabilities balance at May 31, 2019 and 2018.

NOTE 6 — FAIR VALUE MEASUREMENTS

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of May 31, 2019 and 2018, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement. Refer to Note 1 — Summary of Significant Accounting Policies for additional detail regarding the Company's fair value measurement methodology.

	AS OF MAY 31, 2019		
(Dollars in millions)	ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS
Cash	$ 853	$ 853	$ —
Level 1:			
U.S. Treasury securities	347	200	147
Level 2:			
Commercial paper and bonds	34	1	33
Money market funds	1,637	1,637	—
Time deposits	1,791	1,775	16
	1	—	1

U.S. Agency securities						
Total Level 2		3,463		3,413		50
TOTAL	**$**	**4,663**	**$**	**4,466**	**$**	**197**

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(Dollars in millions)	AS OF MAY 31, 2018 ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS
Cash	$ 415	$ 415	$ —
Level 1:			
U.S. Treasury securities	1,178	500	678
Level 2:			
Commercial paper and bonds	451	153	298
Money market funds	2,174	2,174	—
Time deposits	925	907	18
U.S. Agency securities	102	100	2
Total Level 2	3,652	3,334	318
TOTAL	**$ 5,245**	**$ 4,249**	**$ 996**

The Company elects to record the gross assets and liabilities of its derivative financial instruments on the 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 14 — Risk Management and Derivatives). Any amounts of cash collateral posted related to these instruments associated with the Company's credit-related contingent features are recorded in *Prepaid expenses and other current assets*, which would further offset against the Company's derivative liability balance (refer to Note 14 — 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 Consolidated Statements of Cash Flows. Any amounts of non-cash collateral received, such as securities, are not recorded on the Consolidated Balance Sheets pursuant to U.S. GAAP. For further information related to credit risk, refer to Note 14 — Risk Management and Derivatives.

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis as of May 31, 2019 and 2018, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

	AS OF MAY 31, 2019					
	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
(Dollars in millions)	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(1)	$ 611	$ 611	$ —	$ 51	$ 51	$ —
Embedded derivatives	11	5	6	3	1	2
TOTAL	**$ 622**	**$ 616**	**$ 6**	**$ 54**	**$ 52**	**$ 2**

(1) 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 $50 million as of May 31, 2019. As of that date, the Company had received $289 million of cash collateral from various counterparties related to foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of May 31, 2019.

(Dollars in millions)	AS OF MAY 31, 2018 DERIVATIVE ASSETS ASSETS AT FAIR VALUE	OTHER CURRENT ASSETS	OTHER LONG-TERM ASSETS	DERIVATIVE LIABILITIES LIABILITIES AT FAIR VALUE	ACCRUED LIABILITIES	OTHER LONG-TERM LIABILITIES
Level 2:						
Foreign exchange forwards and options(1)	$ 389	$ 237	$ 152	$ 182	$ 182	$ —
Embedded derivatives	11	3	8	8	2	6
TOTAL	**$ 400**	**$ 240**	**$ 160**	**$ 190**	**$ 184**	**$ 6**

(1) 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 $182 million as of May 31, 2018. As of that date, the Company had received $23 million of cash collateral from various counterparties related to foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of May 31, 2018.

The Company's investment portfolio consists of investments in U.S. Treasury and Agency securities, time deposits, money market funds, corporate commercial paper and bonds. These securities are valued using market prices in both active markets (Level 1) and less active markets (Level 2). As of May 31, 2019, the Company held $158 million of available-for-sale debt securities with maturity dates within one year and $39 million with maturity dates over one year and less than five years in *Short-term investments* on the Consolidated Balance Sheets. The gross realized gains and losses on sales of securities were immaterial for the fiscal years ended May 31, 2019 and 2018. Unrealized gains and losses on available-for-sale debt securities included in *Accumulated other comprehensive income (loss)* were immaterial as of May 31, 2019 and 2018. The Company regularly reviews its available-for-sale debt securities for other-than-temporary impairment. For the years ended May 31, 2019 and 2018, the Company did not consider any of its securities to be other-than-temporarily impaired and, accordingly, did not recognize any impairment losses.

Included in *Interest expense (income), net* was interest income related to the Company's investment portfolio of $82 million, $70 million and $27 million for the years ended May 31, 2019, 2018 and 2017, 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 and changes in these investments were immaterial during the years ended May 31, 2019 and 2018.

No transfers among the levels within the fair value hierarchy occurred during the years ended May 31, 2019 or 2018.

For additional information related to the Company's derivative financial instruments, refer to Note 14 — Risk Management and Derivatives. For fair value information regarding *Notes payable* and *Long-term debt*, refer to Note 7 — Short-Term Borrowings and Credit Lines and Note 8 — Long-Term Debt, respectively. The carrying amounts of other current financial assets and other current financial liabilities approximate fair value.

As of May 31, 2019 and 2018, assets or liabilities required to be measured at fair value on a non-recurring basis were immaterial.

NOTE 7 — SHORT-TERM BORROWINGS AND CREDIT LINES

Notes payable and interest-bearing accounts payable to Sojitz Corporation of America ("Sojitz America") as of May 31, 2019 and 2018 are summarized below:

(Dollars in millions)	AS OF MAY 31, 2019 BORROWINGS	2019 INTEREST RATE	2018 BORROWINGS	2018 INTEREST RATE

Notes payable:					
Commercial paper	$	—	0.00 %	$ 325	1.77 %
U.S. operations		2	0.00 % (1)	1	0.00 % (1)
Non-U.S. operations		7	26.00 % (1)	10	18.11 % (1)
TOTAL NOTES PAYABLE	**$**	**9**		**$ 336**	
Interest-bearing accounts payable:					
Sojitz America	$	75	3.27 %	$ 61	2.82 %

(1) Weighted average interest rate includes non-interest bearing overdrafts.

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The carrying amounts reflected in the Consolidated Balance Sheets for *Notes payable* approximate fair value.

The Company purchases through Sojitz America certain NIKE Brand products it acquires from non-U.S. suppliers. These purchases are for products sold in certain countries in the Company's Asia Pacific & Latin America geographic operating segment and Canada, excluding products produced and sold in the same country. Accounts payable to Sojitz America are generally due up to 60 days after shipment of goods from the foreign port. The interest rate on such accounts payable is the 60-day London Interbank Offered Rate (“LIBOR”) as of the beginning of the month of the invoice date, plus 0.75%.

As of May 31, 2019, no borrowings were outstanding under the Company's $2 billion commercial paper program. As of May 31, 2018, the Company had $325 million outstanding at a weighted average interest rate of 1.77%.

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 the committed credit facility, the Company must maintain certain financial ratios, among other things, with which the Company was in compliance at May 31, 2019. No amounts were outstanding under the committed credit facility as of May 31, 2019 or 2018.

NOTE 8 — LONG-TERM DEBT

Long-term debt, net of unamortized premiums, discounts and debt issuance costs, comprises the following:

				BOOK VALUE OUTSTANDING AS OF MAY 31,	
Scheduled Maturity (Dollars and Yen in millions)	**ORIGINAL PRINCIPAL**	**INTEREST RATE**	**INTEREST PAYMENTS**	**2019**	**2018**
Corporate Bond Payables:(1)(2)					
May 1, 2023	$ 500	2.25 %	Semi-Annually	$ 498	$ 498
November 1, 2026	1,000	2.38 %	Semi-Annually	994	994
May 1, 2043	500	3.63 %	Semi-Annually	495	495
November 1, 2045	1,000	3.88 %	Semi-Annually	983	982
November 1, 2046	500	3.38 %	Semi-Annually	491	490
Japanese Yen Notes:(3)					
August 20, 2001 through November 20, 2020	¥ 9,000	2.60 %	Quarterly	$ 6	$ 10
August 20, 2001 through November 20, 2020	4,000	2.00 %	Quarterly	3	5
Total				3,470	3,474
Less current maturities				6	6
TOTAL LONG-TERM DEBT				**$ 3,464**	**$ 3,468**

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

(2) The bonds are redeemable at the Company's option up to three months prior to the scheduled maturity date for the bonds maturing in 2023 and 2026, and up to six months prior to the scheduled maturity date for the bonds maturing in 2043, 2045 and 2046, 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. Within three and six months to scheduled maturity, 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) NIKE Logistics YK assumed a total of ¥13.0 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 years ending May 31, 2020 through 2024 are $6 million, $3 million, $0 million, $500 million and $0 million, respectively, at face value.

The Company's long-term debt is recorded at adjusted cost, net of unamortized premiums, discounts and debt issuance costs. 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 $3,524 million at May 31, 2019 and $3,294 million at May 31, 2018.

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NOTE 9 — INCOME TAXES

Income before income taxes is as follows:

	YEAR ENDED MAY 31,		
(Dollars in millions)	2019	2018	2017
Income before income taxes:			
United States	$ 593	$ 744	$ 1,240
Foreign	4,208	3,581	3,646
TOTAL INCOME BEFORE INCOME TAXES	**$ 4,801**	**$ 4,325**	**$ 4,886**

The provision for income taxes is as follows:

	YEAR ENDED MAY 31,		
(Dollars in millions)	2019	2018	2017
Current:			
United States			
Federal	$ 74	$ 1,167	$ 398
State	56	45	82
Foreign	608	533	439
Total Current	738	1,745	919
Deferred:			
United States			
Federal	(33)	595	(279)
State	(9)	25	(9)
Foreign	76	27	15
Total Deferred	34	647	(273)
TOTAL INCOME TAX EXPENSE	**$ 772**	**$ 2,392**	**$ 646**

The Tax Act was signed into law on December 22, 2017 and significantly changed previous U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21% and a one-time transition tax on deemed repatriation of undistributed foreign earnings. For fiscal 2018, the change in the corporate tax rate resulted in a blended U.S. federal statutory rate for the Company of approximately 29%. Certain provisions of the Tax Act, including a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries, were not effective for the Company until fiscal 2019. In accordance with U.S. GAAP, the Company has made an accounting policy election to treat taxes due under the GILTI provision as a current period expense. Implementation of the Tax Act required the Company to record incremental provisional tax expense in fiscal 2018, which increased its effective tax rate in fiscal 2018. The Company completed its analysis of the Tax Act in the second quarter of fiscal 2019 and no adjustments were made to the provisional amounts recorded. As of May 31, 2019 and 2018, long-term income taxes payable were $902 million and $993 million, respectively, and were included within *Deferred income taxes and other liabilities* on the Consolidated Balance Sheets.

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate is as follows:

	YEAR ENDED MAY 31,		
	2019	2018	2017
Federal income tax rate	21.0 %	29.2 %	35.0 %
State taxes, net of federal benefit	1.2 %	1.2 %	1.1 %
Foreign earnings	-2.1 %	-17.5 %	-20.7 %
Transition tax related to the Tax Act	— %	43.3 %	— %
Remeasurement of deferred tax assets and liabilities related to the Tax Act	— %	3.7 %	— %
Excess tax benefits from share-based compensation	-3.6 %	-5.3 %	— %
Resolution of a U.S. tax matter	— %	— %	-3.2 %

U.S. Research and Development tax credit	-1.1 %	-0.6 %	-0.6 %
Other, net	0.7 %	1.3 %	1.6 %
EFFECTIVE INCOME TAX RATE	**16.1 %**	**55.3 %**	**13.2 %**

The effective tax rate for the year ended May 31, 2019 was lower than the effective tax rate for the year ended May 31, 2018 due to significant changes related to the enactment of the Tax Act in the prior year and reduction in the U.S. federal statutory rate to 21% in the current year. The foreign earnings rate impact shown above for the year ended May 31, 2019 includes 1.5% of U.S. tax on foreign earnings driven by the impact of the Tax Act.

The effective tax rate for the year ended May 31, 2018 was higher than the effective tax rate for the year ended May 31, 2017 primarily due to the enactment of the Tax Act, which included provisional expense of $1,875 million for the one-time transition tax on the deemed repatriation of undistributed foreign earnings, and $158 million due to the remeasurement of deferred tax assets and liabilities. The remaining provisions of the Tax Act, which were a net benefit to the effective tax rate, did not have a material impact on the Company's Consolidated Financial Statements during fiscal 2018. Additionally, the increase in the effective tax rate was partially offset by the tax benefit from share-based compensation in the current period as a result of the adoption of ASU 2016-09 in the first quarter of fiscal 2018. During the year ended May 31, 2017, income tax benefit of $177 million attributable to employee share-based compensation were allocated to *Total shareholders' equity*. As a result of the adoption of ASU 2016-09, beginning in fiscal 2018, income tax benefits from share-based compensation are reported in the Consolidated Statements of Income.

Deferred tax assets and liabilities comprise the following:

	AS OF MAY 31,	
(Dollars in millions)	**2019**	**2018**
Deferred tax assets:		
Inventories	$ 66	$ 73
Sales return reserves	128	104
Deferred compensation	271	250
Stock-based compensation	156	135
Reserves and accrued liabilities	101	102
Net operating loss carry-forwards	81	88
Other	125	106
Total deferred tax assets	928	858
Valuation allowance	(88)	(95)
Total deferred tax assets after valuation allowance	840	763
Deferred tax liabilities:		
Foreign withholding tax on undistributed earnings of foreign subsidiaries	(235)	(155)
Property, plant and equipment	(188)	(167)
Intangibles	(23)	(77)
Other	(18)	(26)
Total deferred tax liabilities	(464)	(425)
NET DEFERRED TAX ASSET	**$ 376**	**$ 338**

The following is a reconciliation of the changes in the gross balance of unrecognized tax benefits:

	AS OF MAY 31,		
(Dollars in millions)	**2019**	**2018**	**2017**
Unrecognized tax benefits, beginning of the period	$ 698	$ 461	$ 506
Gross increases related to prior period tax positions	85	19	31
Gross decreases related to prior period tax positions	(32)	(12)	(163)
Gross increases related to current period tax positions	81	249	115
Settlements	—	—	(12)
Lapse of statute of limitations	(35)	(20)	(21)
Changes due to currency translation	11	1	5
UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD	**$ 808**	**$ 698**	**$ 461**

As of May 31, 2019, total gross unrecognized tax benefits, excluding related interest and penalties, were $808 million, $582 million of which would affect the Company's effective tax rate if recognized in future periods. The majority of the total gross unrecognized tax benefits are long-term in nature and included within *Deferred income taxes and other liabilities* on the Consolidated Balance Sheets.

The Company recognizes interest and penalties related to income tax matters in income tax expense. The liability for payment of interest and penalties increased by $17 million during the year ended May 31, 2019, decreased by $14 million during the year ended May 31, 2018 and decreased by $38 million during the year ended May 31, 2017. As of May 31, 2019 and 2018, accrued interest and penalties related to uncertain tax positions were $174 million and $157 million, respectively (excluding federal benefit).

The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. The Company has closed all U.S. federal income tax matters through fiscal 2016, with the exception of certain transfer pricing adjustments. The Company's major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar 2008 and fiscal 2012, 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 $210 million within the next 12 months. In January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules when granting certain tax rulings to the Company. The Company believes the investigation is without merit. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to current and prior periods, and the company's Netherlands income taxes in the future could increase.

The Company historically provided for U.S. income taxes on the undistributed earnings of foreign subsidiaries unless they were considered indefinitely reinvested outside the United States. As a result of the enactment of the Tax Act, in fiscal 2018 the Company reevaluated its historic indefinite reinvestment assertion and determined that any historical or future undistributed earnings of foreign subsidiaries are no longer considered to be indefinitely reinvested.

A portion of the Company's foreign operations benefit from a tax holiday, which is set to expire in 2021. This tax holiday may be extended when certain conditions are met or may be terminated early if certain conditions are not met. The tax benefit attributable to this tax holiday was $167 million, $126 million and $187 million for the fiscal years ended May 31, 2019, 2018 and 2017, respectively. The benefit of the tax holiday on diluted earnings per common share was $0.10, $0.08 and $0.11 for the fiscal years ended May 31, 2019, 2018 and 2017, respectively.

Deferred tax assets at May 31, 2019 and 2018 were reduced by a valuation allowance primarily relating to tax benefits of certain entities with operating losses. There was a $7 million net decrease in the valuation allowance for the year ended May 31, 2019, compared to a $13 million net increase for the year ended May 31, 2018, and $30 million net increase for the year ended May 31, 2017.

The Company has available domestic and foreign loss carry-forwards of $257 million at May 31, 2019. If not utilized, such losses will expire as follows:

	YEAR ENDING MAY 31,						
(Dollars in millions)	**2020**	**2021**	**2022**	**2023**	**2024-2039**	**INDEFINITE**	**TOTAL**
Net operating losses	$ 5	$ 2	$ 1	$ 26	$ 34	$ 189	$ 257

NOTE 10 — REDEEMABLE PREFERRED STOCK

Sojitz America is the sole owner of the Company's authorized redeemable preferred stock, $1 par value, which is redeemable at the option of Sojitz America or the Company at par value aggregating $0.3 million. A cumulative dividend of $0.10 per share is payable annually on May 31 and no dividends may be declared or paid on the common stock of the Company unless dividends on the redeemable preferred stock have been declared and paid in full. There have been no changes in the redeemable preferred stock in the fiscal years ended May 31, 2019, 2018 and 2017. As the holder of the redeemable preferred stock, Sojitz America does not have general voting rights, but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries, on merger, consolidation, liquidation or dissolution of the Company, or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States. The redeemable preferred stock has been fully issued to Sojitz America and is not blank check preferred stock. The Company's articles of incorporation do not permit the issuance of additional preferred stock.

NOTE 11 — COMMON STOCK AND STOCK-BASED COMPENSATION

COMMON STOCK

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 holders of Class A and Class B Common Stock. From time to time, the Company's Board of Directors authorizes share repurchase programs for the repurchase of Class B Common Stock. The value of repurchased shares is deducted from *Total shareholders' equity* through allocation to *Capital in excess of stated value* and *Retained earnings*.

STOCK-BASED COMPENSATION

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 equity 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. The Company generally grants stock options and restricted stock on an annual basis. Substantially all awards under the Stock Incentive Plan vest ratably over 4 years of continued employment, with stock options expiring 10 years from the date of grant.

The following table summarizes the Company's total stock-based compensation expense recognized in *Cost of sales* or *Operating overhead expense*, as applicable:

	YEAR ENDED MAY 31,		
(Dollars in millions)	2019	2018	2017
Stock options(1)	$ 207	$ 149	$ 145
ESPPs	40	34	36
Restricted stock	78	35	34
TOTAL STOCK-BASED COMPENSATION EXPENSE	**$ 325**	**$ 218**	**$ 215**

(1) Expense for stock options includes the expense associated with stock appreciation rights. Accelerated stock option expense is recorded for employees meeting certain retirement eligibility requirements. Accelerated stock option expense was $41 million, $18 million and $14 million for the years ended May 31, 2019, 2018 and 2017, respectively.

The income tax benefit related to stock-based compensation expense was $175 million and $230 million for the fiscal years ended May 31, 2019 and 2018, respectively, and reported within *Income tax expense* in accordance with ASU 2016-09. For the fiscal year ended May 31, 2017, prior to the adoption of ASU 2016-09, income tax benefits related to stock-based compensation expense were $177 million and allocated to *Total shareholders' equity*.

STOCK OPTIONS

The weighted average fair value per share of the options granted during the years ended May 31, 2019, 2018 and 2017, computed as of the grant date using the Black-Scholes pricing model, was $22.78, $9.82 and $9.38, respectively. The weighted average assumptions used to estimate these fair values were as follows:

	YEAR ENDED MAY 31,		
	2019	2018	2017
Dividend yield	1.0 %	1.2 %	1.1 %
Expected volatility	26.6 %	16.4 %	17.4 %

Weighted average expected life (in years)	6.0	6.0	6.0
Risk-free interest rate	2.8 %	2.0 %	1.3 %

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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.

The following summarizes the stock option transactions under the plan discussed above:

	SHARES(1)	WEIGHTED AVERAGE OPTION PRICE
	(In millions)	
Options outstanding as of May 31, 2018	93.2	$ 40.73
Exercised	(18.2)	29.70
Forfeited	(1.8)	66.66
Granted	18.1	81.79
Options outstanding as of May 31, 2019	91.3	$ 50.59

(1) Includes stock appreciation rights transactions.

Options exercisable as of May 31, 2019 were 54.4 million and had a weighted average option price of $37.82 per share. The aggregate intrinsic value for options outstanding and exercisable at May 31, 2019 was $2,507 million and $2,138 million, respectively. The total intrinsic value of the options exercised during the years ended May 31, 2019, 2018 and 2017 was $938 million, $889 million and $594 million, respectively. The intrinsic value is the amount by which the market value of the underlying stock exceeds the exercise price of the options. The weighted average contractual life remaining for options outstanding and options exercisable at May 31, 2019 was 5.9 years and 4.3 years, respectively. As of May 31, 2019, the Company had $352 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in *Cost of sales* or *Operating overhead expense*, as applicable, over a weighted average remaining period of 2.1 years.

EMPLOYEE STOCK PURCHASE PLANS

In addition to the Stock Incentive Plan, the Company gives employees the right to purchase shares at a discount from the market price under employee stock purchase plans (ESPPs). Subject to the annual statutory limit, 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. Employees purchased 2.5 million, 3.1 million and 3.1 million shares during each of the fiscal years ended May 31, 2019, 2018 and 2017, respectively.

RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Recipients of restricted stock are entitled to cash dividends and to vote their respective shares throughout the period of restriction. Recipients of restricted stock units are entitled to dividend equivalent cash payments upon vesting. The number of restricted stock and restricted stock units vested includes shares of common stock withheld by the Company on behalf of employees to satisfy the minimum statutory tax withholding requirements.

The following summarizes the restricted stock and restricted stock unit activity under the plan discussed above:

	SHARES	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
	(In millions)	
Nonvested as of May 31, 2018	2.8	$ 59.14
Vested	(0.6)	59.01
Forfeited	(0.3)	66.24

Granted	2.5		80.95
Nonvested as of May 31, 2019	4.4	$	70.93

The weighted average grant date fair values per share of restricted stock and restricted stock units granted for the years ended May 31, 2019, 2018 and 2017 was $80.95, $62.51, and $57.59, respectively. During the years ended May 31, 2019, 2018 and 2017, the aggregate fair value of restricted stock and restricted stock units vested was $44 million, $113 million and $60 million, respectively, determined as of the date of vesting. As of May 31, 2019, the Company had $195 million of unrecognized compensation costs from restricted stock and restricted stock units, net of estimated forfeitures, to be recognized in *Cost of sales* or *Operating overhead expense*, as applicable, over a weighted average period of 2.3 years.

NOTE 12 — 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 ESPPs, to purchase an additional 17.5 million, 42.9 million and 30.5 million shares of common stock outstanding for the years ended May 31, 2019, 2018 and 2017, respectively, because the options were anti-dilutive.

	YEAR ENDED MAY 31,		
(Dollars in millions, except per share data)	**2019**	**2018**	**2017**
Net income available to common stockholders	$ 4,029	$ 1,933	$ 4,240
Determination of shares:			
Weighted average common shares outstanding	1,579.7	1,623.8	1,657.8
Assumed conversion of dilutive stock options and awards	38.7	35.3	34.2
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**1,618.4**	**1,659.1**	**1,692.0**
Earnings per common share:			
Basic	$ 2.55	$ 1.19	$ 2.56
Diluted	$ 2.49	$ 1.17	$ 2.51

NOTE 13 — BENEFIT PLANS

The Company has a qualified 401(k) Savings and Profit Sharing Plan, in which all U.S. employees are able to participate. The Company matches a portion of employee contributions to the savings plan. Company contributions to the savings plan were $90 million, $80 million and $75 million and included in *Cost of sales* or *Operating overhead expense*, as applicable, for the years ended May 31, 2019, 2018 and 2017, respectively. The terms of the plan also allow for annual discretionary profit sharing contributions, as recommended by senior management and approved by the Board of Directors, to the accounts of eligible U.S. employees who work at least 1,000 hours in a year. Profit sharing contributions of $37 million, $59 million and $68 million were made to the plan and included in *Cost of sales* or *Operating overhead expense*, as applicable, for the years ended May 31, 2019, 2018 and 2017, respectively.

The Company also has a Long-Term Incentive Plan (LTIP) adopted by the Board of Directors and approved by shareholders in September 1997 and later amended and approved in fiscal 2007 and fiscal 2012. The Company recognized $83 million, $33 million and $21 million of *Operating overhead expense* related to cash awards under the LTIP during the years ended May 31, 2019, 2018 and 2017, respectively.

The Company allows certain highly compensated employees and non-employee directors of the Company to defer compensation under a nonqualified deferred compensation plan. Deferred compensation plan liabilities were $647 million and $641 million at May 31, 2019 and 2018, respectively, and primarily classified as non-current in *Deferred income taxes and other liabilities* on the Consolidated Balance Sheets.

The Company has pension plans in various countries worldwide. The pension plans are only available to local employees and are generally government mandated. The liability related to the unfunded pension liabilities of the plans was $73 million and $70 million at May 31, 2019 and 2018, respectively, and primarily classified as non-current in *Deferred income taxes and other liabilities* on the Consolidated Balance Sheets.

NOTE 14 — 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 U.S. GAAP. 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 and assessing, both at inception and on an ongoing basis, the effectiveness of the hedging relationships.

The majority of derivatives outstanding as of May 31, 2019 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Chinese Yuan/U.S. Dollar and Japanese Yen/U.S. Dollar currency pairs. All derivatives are recognized on the Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date.

The following table presents the fair values of derivative instruments included within the Consolidated Balance Sheets as of May 31, 2019 and 2018. Refer to Note 6 — Fair Value Measurements for a description of how the financial instruments in the table below are valued.

	DERIVATIVE ASSETS			**DERIVATIVE LIABILITIES**		
		AS OF MAY 31,			**AS OF MAY 31,**	
(Dollars in millions)	**BALANCE SHEET LOCATION**	**2019**	**2018**	**BALANCE SHEET LOCATION**	**2019**	**2018**
Derivatives formally designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	$ 509	$ 118	Accrued liabilities	$ 5	$ 156
Foreign exchange forwards and options	Deferred income taxes and other assets	—	152	Deferred income taxes and other liabilities	—	—
Total derivatives formally designated as hedging instruments		509	270		5	156
Derivatives not designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	102	119	Accrued liabilities	46	26
Embedded derivatives	Prepaid expenses and other current assets	5	3	Accrued liabilities	1	2
Embedded derivatives	Deferred income taxes and other assets	6	8	Deferred income taxes and other liabilities	2	6
Total derivatives not designated as hedging instruments		113	130		49	34
TOTAL DERIVATIVES		**$ 622**	**$ 400**		**$ 54**	**$ 190**

The following tables present the amounts in the Consolidated Statements of Income in which the effects of cash flow hedges are recorded and the effects of cash flow hedge activity on these line items for the years ended May 31, 2019, 2018 and 2017:

	YEAR ENDED MAY 31,					
	2019		**2018**		**2017**	
(Dollars in millions)	**TOTAL**	**AMOUNT OF GAIN (LOSS)**	**TOTAL**	**AMOUNT OF GAIN (LOSS)**	**TOTAL**	**AMOUNT OF GAIN (LOSS)**

		ON CASH FLOW HEDGE ACTIVITY		ON CASH FLOW HEDGE ACTIVITY		ON CASH FLOW HEDGE ACTIVITY
Revenues	$ 39,117	$ (5)	$ 36,397	$ 34	$ 34,350	$ 96
Cost of sales	21,643	53	20,441	(90)	19,038	339
Demand creation expense	3,753	—	3,577	1	3,341	—
Other (income) expense, net	(78)	35	66	(69)	(196)	199
Interest expense (income), net	49	(7)	54	(7)	59	(4)

The following tables present the amounts affecting the Consolidated Statements of Income for the years ended May 31, 2019, 2018 and 2017:

	AMOUNT OF GAIN (LOSS) RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS) ON DERIVATIVES(1)			AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME(1)			
	YEAR ENDED MAY 31,			LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME	YEAR ENDED MAY 31,		
(Dollars in millions)	2019	2018	2017		2019	2018	2017
Derivatives designated as cash flow hedges:							
Foreign exchange forwards and options	$ 14	$ 19	$ 72	Revenues	$ (5)	$ 34	$ 96
Foreign exchange forwards and options	405	(50)	43	Cost of sales	53	(90)	339
Foreign exchange forwards and options	2	1	(4)	Demand creation expense	—	1	—
Foreign exchange forwards and options	156	(19)	37	Other (income) expense, net	35	(69)	199
Interest rate swaps(2)	—	—	(54)	Interest expense (income), net	(7)	(7)	(4)
Total designated cash flow hedges	$ 577	$ (49)	$ 94		$ 76	$ (131)	$ 630

(1) For the years ended May 31, 2019, 2018 and 2017, the amounts recorded in Other (income) expense, net as a result of the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.

(2) Gains and losses associated with terminated interest rate swaps, which were previously designated as cash flow hedges and recorded in Accumulated other comprehensive income (loss), will be released through Interest expense (income), net over the term of the issued debt.

	AMOUNT OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES			LOCATION OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES
	YEAR ENDED MAY 31,			
(Dollars in millions)	2019	2018	2017	
Derivatives not designated as hedging instruments:				
Foreign exchange forwards and options	$ 166	$ (57)	$ (44)	Other (income) expense, net
Embedded derivatives	7	(4)	(2)	Other (income) expense, net

CASH FLOW HEDGES

All changes in fair value of derivatives designated as cash flow hedges are recorded in *Accumulated other comprehensive income (loss)* until *Net income* is affected by the variability of cash flows of the hedged transaction. Effective hedge results are classified in the Consolidated Statements of Income in the same manner as the underlying exposure. Derivative instruments designated as cash flow hedges must be discontinued when it is no longer probable the forecasted hedged transaction will occur in the initially identified time period. The gains and losses associated with discontinued derivative instruments in *Accumulated other comprehensive income (loss)* will be recognized immediately in *Other (income) expense, net*, if it is probable the forecasted hedged transaction will not occur by the end of the initially identified time period or within an additional two-month period thereafter. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will account for the derivative as an undesignated instrument as discussed below.

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 the Company may elect to hedge in this manner include product cost exposures, non-functional currency denominated external and intercompany revenues, demand creation 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 products 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. NTC sales to a NIKE entity with a different functional currency result in 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 $8.1 billion as of May 31, 2019.

As of May 31, 2019, approximately $518 million of deferred net gains (net of tax) on both outstanding and matured derivatives in *Accumulated other comprehensive income (loss)* are 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 currently outstanding mature. As of May 31, 2019, the maximum term over which the Company is hedging exposures to the variability of cash flows for its forecasted transactions was 15 months.

FAIR VALUE HEDGES

The Company has, in the past, been 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 U.S. GAAP. 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 Company had no interest rate swaps designated as fair value hedges as of May 31, 2019.

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 are reported in *Accumulated other comprehensive income (loss)* along with the foreign currency translation adjustments on those investments. The Company had no outstanding net investment hedges as of May 31, 2019.

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 Consolidated Balance Sheets and/or the embedded derivative contracts. These undesignated instruments are recorded at fair value as a derivative asset or liability on the 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 and/or embedded derivative contract. The total notional amount of outstanding undesignated derivative instruments was $6.5 billion as of May 31, 2019.

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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. In addition, embedded derivative contracts are created when the Company enters 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. Embedded derivative contracts are treated as foreign currency forward contracts that are bifurcated from the related contract and recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in *Other (income) expense, net*, through the date the foreign currency fluctuations cease to exist.

At May 31, 2019, the total notional amount of embedded derivatives outstanding was approximately $452 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 May 31, 2019, 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 immaterial. Accordingly, the Company was not required to post any collateral as a result of these contingent features. Further, as of May 31, 2019, the Company had $289 million of cash collateral received from various counterparties to its derivative contracts (refer to Note 6 — Fair Value Measurements). The Company considers the impact of the risk of counterparty default to be immaterial.

NOTE 15 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in *Accumulated other comprehensive income (loss)*, net of tax, were as follows:

(Dollars in millions)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT(1)	CASH FLOW HEDGES	NET INVESTMENT HEDGES(1)	OTHER	TOTAL
Balance at May 31, 2018	**$ (173)**	**$ 17**	**$ 115**	**$ (51)**	**$ (92)**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications(2)	(173)	573	—	10	410
Reclassifications to net income of previously deferred (gains) losses(3)	—	(70)	—	(17)	(87)
Total other comprehensive income (loss)	(173)	503	—	(7)	323
Balance at May 31, 2019	**$ (346)**	**$ 520**	**$ 115**	**$ (58)**	**$ 231**

(1) The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $(4) million, $0 million, $1 million and $(3) million, respectively.

(3) Net of tax (benefit) expense of $0 million, $6 million, $0 million, $0 million and $6 million, respectively.

(Dollars in millions)	FOREIGN CURRENCY TRANSLATION ADJUSTMENT(1)	CASH FLOW HEDGES	NET INVESTMENT HEDGES(1)	OTHER	TOTAL
Balance at May 31, 2017	**$ (191)**	**$ (52)**	**$ 115**	**$ (85)**	**$ (213)**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications(2)	(6)	(52)	—	2	(56)
Reclassifications to net income of previously deferred (gains) losses(3)	—	128	—	32	160
Total other comprehensive income (loss)	(6)	76	—	34	104
Reclassifications to retained earnings in accordance with ASU 2018-02(4)	24	(7)	—	—	17
Balance at May 31, 2018	**$ (173)**	**$ 17**	**$ 115**	**$ (51)**	**$ (92)**

(1) The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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 $(24) million, $(3) million, $0 million, $(4) million and $(31) million, respectively.

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

(4) Refer to Note 1 — Summary of Significant Accounting Policies for additional information on the adoption of ASU 2018-02 during the third quarter of fiscal 2018.

The following table summarizes the reclassifications from *Accumulated other comprehensive income (loss)* to the Consolidated Statements of Income:

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME — YEAR ENDED MAY 31, 2019	2018	LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME
Gains (losses) on cash flow hedges:			
Foreign exchange forwards and options	$ (5)	$ 34	Revenues
Foreign exchange forwards and options	53	(90)	Cost of sales
Foreign exchange forwards and options	—	1	Demand creation expense
Foreign exchange forwards and options	35	(69)	Other (income) expense, net
Interest rate swaps	(7)	(7)	Interest expense (income), net
Total before tax	76	(131)	
Tax (expense) benefit	(6)	3	
Gain (loss) net of tax	**70**	**(128)**	
Gains (losses) on other	17	(32)	Other (income) expense, net
Total before tax	17	(32)	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	**17**	**(32)**	
Total net gain (loss) reclassified for the period	**$ 87**	**$ (160)**	

NOTE 16 — REVENUES

DISAGGREGATION OF REVENUES

The following tables present the Company's revenues disaggregated by reportable operating segment, major product line and by distribution channel:

	YEAR ENDED MAY 31, 2019								
(Dollars in millions)	NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA	GREATER CHINA	ASIA PACIFIC & LATIN AMERICA	GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE	CORPORATE	TOTAL NIKE, INC.
Revenues by:									
Footwear	$10,045	$ 6,293	$ 4,262	$ 3,622	$ —	$24,222	$ 1,658	$ —	$ 25,880
Apparel	5,260	3,087	1,808	1,395	—	11,550	118	—	11,668
Equipment	597	432	138	237	—	1,404	24	—	1,428
Other(1)	—	—	—	—	42	42	106	(7)	141
TOTAL REVENUES	**$15,902**	**$ 9,812**	**$ 6,208**	**$ 5,254**	**$ 42**	**$37,218**	**$ 1,906**	**$ (7)**	**$ 39,117**
Revenues by:									
Sales to Wholesale Customers	$10,875	$ 7,076	$ 3,726	$ 3,746	$ —	$25,423	$ 1,247	$ —	$ 26,670
Sales through Direct to Consumer	5,027	2,736	2,482	1,508	—	11,753	553	—	12,306
Other(1)	—	—	—	—	42	42	106	(7)	141
TOTAL REVENUES	**$15,902**	**$ 9,812**	**$ 6,208**	**$ 5,254**	**$ 42**	**$37,218**	**$ 1,906**	**$ (7)**	**$ 39,117**

(1) Other revenues for Global Brand Divisions and Converse are primarily attributable to licensing businesses. Other revenues for Corporate 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 the Company's central foreign exchange risk management program.

As of May 31, 2019, the Company did not have any contract assets and had an immaterial amount of contract liabilities recorded in *Accrued Liabilities* on the Consolidated Balance Sheets.

SALES-RELATED RESERVES

At May 31, 2019, the Company's sales-related reserve balance, which includes returns, post-invoice sales discounts and miscellaneous claims, was $1,218 million and recorded in *Accrued liabilities* on the Consolidated Balance Sheets. The estimated cost of inventory for expected product returns was $410 million as of May 31, 2019 and was recorded in *Prepaid expenses and other current assets* on the Consolidated Balance Sheets. At May 31, 2018, the Company's sales-related reserve balance, which includes returns, post-invoice sales discounts and miscellaneous claims, was $675 million, net of the estimated cost of expected product returns, and recognized as a reduction in *Accounts receivable, net* on the Consolidated Balance Sheets.

MAJOR CUSTOMERS

No customer accounted for 10% or more of the Company's net revenues during the fiscal years ended May 31, 2019, 2018 and 2017.

NOTE 17 — OPERATING SEGMENTS AND RELATED INFORMATION

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; Europe, Middle East & Africa; Greater China; and Asia Pacific & Latin America, and include results for the NIKE, Jordan and Hurley brands.

The Company's NIKE Direct operations are managed within each NIKE Brand 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 and operating overhead expense, including product creation and design expenses that are centrally managed for the NIKE Brand, as well as costs associated with NIKE Direct global digital operations and enterprise technology.

Corporate consists primarily 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 Consolidated Statements of Income.

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 to Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the 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. Additions to long-lived assets as presented in the following table represent capital expenditures.

(Dollars in millions)	YEAR ENDED MAY 31, 2019	2018	2017
REVENUES			
North America	$ 15,902	$ 14,855	$ 15,216
Europe, Middle East & Africa	9,812	9,242	7,970
Greater China	6,208	5,134	4,237
Asia Pacific & Latin America	5,254	5,166	4,737
Global Brand Divisions	42	88	73
Total NIKE Brand	37,218	34,485	32,233
Converse	1,906	1,886	2,042
Corporate	(7)	26	75
TOTAL NIKE, INC. REVENUES	**$ 39,117**	**$ 36,397**	**$ 34,350**
EARNINGS BEFORE INTEREST AND TAXES			
North America	$ 3,925	$ 3,600	$ 3,875
Europe, Middle East & Africa	1,995	1,587	1,507
Greater China	2,376	1,807	1,507
Asia Pacific & Latin America	1,323	1,189	980
Global Brand Divisions	(3,262)	(2,658)	(2,677)
Total NIKE Brand	6,357	5,525	5,192
Converse	303	310	477
Corporate	(1,810)	(1,456)	(724)
Total NIKE, Inc. Earnings Before Interest and Taxes	4,850	4,379	4,945
Interest expense (income), net	49	54	59
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 4,801**	**$ 4,325**	**$ 4,886**
ADDITIONS TO LONG-LIVED ASSETS			
North America	$ 117	$ 196	$ 223
Europe, Middle East & Africa	233	240	173
Greater China	49	76	51
Asia Pacific & Latin America	47	49	59
Global Brand Divisions	278	286	278
Total NIKE Brand	724	847	784
Converse	18	22	30
Corporate	333	325	387
TOTAL ADDITIONS TO LONG-LIVED ASSETS	**$ 1,075**	**$ 1,194**	**$ 1,201**
DEPRECIATION			
North America	$ 149	$ 160	$ 140
Europe, Middle East & Africa	111	116	106
Greater China	50	56	54
Asia Pacific & Latin America	53	55	54
Global Brand Divisions	195	217	233
Total NIKE Brand	558	604	587
Converse	31	33	28
Corporate	116	110	91
TOTAL DEPRECIATION	**$ 705**	**$ 747**	**$ 706**

(Dollars in millions)	AS OF MAY 31, 2019	2018
ACCOUNTS RECEIVABLE, NET		
North America	$ 1,718	$ 1,443
Europe, Middle East & Africa	1,164	870
Greater China	245	101
Asia Pacific & Latin America	771	720
Global Brand Divisions	105	102
Total NIKE Brand	4,003	3,236
Converse	243	240
Corporate	26	22
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 4,272**	**$ 3,498**
INVENTORIES		
North America	$ 2,328	$ 2,270
Europe, Middle East & Africa	1,390	1,433
Greater China	693	580
Asia Pacific & Latin America	694	687
Global Brand Divisions	126	91
Total NIKE Brand	5,231	5,061
Converse	269	268
Corporate	122	(68)
TOTAL INVENTORIES	**$ 5,622**	**$ 5,261**
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	$ 814	$ 848
Europe, Middle East & Africa	929	849
Greater China	237	256
Asia Pacific & Latin America	326	339
Global Brand Divisions	665	597
Total NIKE Brand	2,971	2,889
Converse	100	115
Corporate	1,673	1,450
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,744**	**$ 4,454**

REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREA

After allocation of revenues for Global Brand Divisions, Converse and Corporate to geographical areas based on the location where the sales originated, revenues by geographical area are essentially the same as reported above for the NIKE Brand operating segments with the exception of the United States. Revenues derived in the United States were $16,091 million, $15,314 million and $15,778 million for the years ended May 31, 2019, 2018 and 2017, respectively.

The Company's largest concentrations of long-lived assets primarily consist of the Company's world headquarters and distribution facilities in the United States, as well as distribution facilities in Belgium and China. Long-lived assets attributable to operations in these countries, which are primarily composed of property, plant and equipment, net, were as follows:

	AS OF MAY 31,	
(Dollars in millions)	**2019**	**2018**
United States	$ 3,174	$ 2,930
Belgium	618	534
China	242	262

NOTE 18 — COMMITMENTS AND CONTINGENCIES

The Company leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets under operating leases expiring from 1 to 24 years after May 31, 2019. Rent expense, excluding executory costs, was $829 million, $820 million and $731 million for the years ended May 31, 2019, 2018 and 2017, respectively. Amounts of minimum future annual commitments under non-cancelable operating and capital leases are as follows:

	YEAR ENDING MAY 31,						
(Dollars in millions)	**2020**	**2021**	**2022**	**2023**	**2024**	**THEREAFTER**	**TOTAL**
Operating leases	$ 553	$ 513	$ 441	$ 386	$ 345	$ 1,494	$ 3,732
Capital leases and other financing obligations(1)	32	34	40	37	34	197	374

(1) Capital leases and other financing obligations include payments related to build-to-suit lease arrangements.

As of May 31, 2019 and 2018, the Company had bank guarantees and letters of credit outstanding totaling $215 million and $165 million, respectively, issued primarily for real estate agreements, self-insurance programs and other general business obligations.

In connection with various contracts and agreements, the Company provides routine indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where the Company is acting as the guarantor. Currently, the Company has several such agreements in place. However, based on the Company's historical experience and the estimated probability of future loss, the Company has determined the fair value of such indemnification is not material to the Company's financial position or results of operations.

In the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. While the Company cannot predict the outcome of its pending legal matters with certainty, the Company does not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on the Company's results of operations, financial position or cash flows.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change of accountants nor any disagreements with accountants on any matter of accounting principles or practices or financial statement disclosure required to be reported under this Item.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that ensure 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 May 31, 2019.

“Management's Annual Report on Internal Control Over Financial Reporting” is included in Item 8 of this Report.

We are continuing 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 these transformation initiatives.

There have not been any 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.

ITEM 9B. OTHER INFORMATION

No disclosure is required under this item.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 of Regulation S-K regarding directors is included under “Election of Directors” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding executive officers is included under “Information about our Executive Officers” in Item 1 of this Report. The information required by Item 406 of Regulation S-K is included under “Corporate Governance — Code of Business Conduct and Ethics” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K regarding the Audit & Finance Committee of the Board of Directors is included under “Corporate Governance — Board Committees” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K regarding executive compensation is included under “Election of Directors — Director Compensation for Fiscal 2019,” “Compensation Discussion and Analysis,” “Executive Compensation,” “Election of Directors — Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 201(d) of Regulation S-K is included under “Executive Compensation — Equity Compensation Plans” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 403 of Regulation S-K is included under “Election of Directors — Stock Holdings of Certain Owners and Management” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is included under “Election of Directors — Transactions with Related Persons” and “Corporate Governance — Director Independence” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is included under “Ratification of Independent Registered Public Accounting Firm” in the definitive Proxy Statement for our 2019 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

		FORM 10-K PAGE NO.
1.	**Financial Statements:**	
	Report of Independent Registered Public Accounting Firm	48
	Consolidated Statements of Income for each of the three years ended May 31, 2019, May 31, 2018 and May 31, 2017	50
	Consolidated Statements of Comprehensive Income for each of the three years ended May 31, 2019, May 31, 2018 and May 31 2017	51
	Consolidated Balance Sheets at May 31, 2019 and May 31, 2018	52
	Consolidated Statements of Cash Flows for each of the three years ended May 31, 2019, May 31, 2018 and May 31, 2017	53
	Consolidated Statements of Shareholders' Equity for each of the three years ended May 31, 2019, May 31, 2018 and May 31, 2017	54
	Notes to Consolidated Financial Statements	55
2.	**Financial Statement Schedule:**	
	II — Valuation and Qualifying Accounts for the years ended May 31, 2019, 2018 and 2017	89
	All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.	

3.	**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	Fifth Restated Bylaws, as amended (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed November 17, 2017).
4.1	Restated Articles of Incorporation, as amended (see Exhibit 3.1).
4.2	Fifth Restated Bylaws, as amended (see Exhibit 3.2).
4.3	Indenture dated as of April 26, 2013, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed April 26, 2013).
4.4	Second Supplemental Indenture, dated as of October 29, 2015, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 3.875% Notes due 2045 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 29, 2015).
4.5	Third Supplemental Indenture, dated as of October 21, 2016, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.375% Notes due 2026 and form of 3.375% Notes due 2046 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 21, 2016).
4.6	Description of Registrant's Securities.
10.1	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 21, 2005).*
10.2	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors after May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2010).*
10.3	Form of Non-Statutory Stock Option Agreement for options granted to executives prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*

10.4	Form of Restricted Stock Agreement for non-employee directors under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.5	Form of Non-Statutory Stock Option Agreement for options granted to executives under the Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*

10.6	Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.7	NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.8	NIKE, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.9	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective April 1, 2013) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2013).*
10.10	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective June 1, 2004) (applicable to amounts deferred before January 1, 2005) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004).*
10.11	Amendment No. 1 effective January 1, 2008 to the NIKE, Inc. Deferred Compensation Plan (June 1, 2004 Restatement) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.12	NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008).*
10.13	Amended and Restated Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated July 24, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2008).*
10.14	Form of Restricted Stock Agreement under the Stock Incentive Plan for awards after May 31, 2010 (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.15	Form of Restricted Stock Unit Agreement under the Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*
10.16	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and its executive officers (other than Mark G. Parker) (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2018).*
10.17	Policy for Recoupment of Incentive Compensation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 20, 2010).*
10.18	Credit Agreement dated as of August 28, 2015 among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citibank N.A., as Syndication Agent, Deutsche Bank A.G. New York Branch and HSBC Bank USA, National Association, as Co-Documentation Agents, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 2, 2015).
10.19	Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.20	Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.21	Form of Discretionary Performance Award Agreement (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2018).*
10.22	NIKE, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement filed July 25, 2017).*
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (included within this Annual Report on Form 10-K).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

** Management contract or compensatory plan or arrangement.*

The Exhibits filed herewith do not include certain instruments with respect to long-term debt of NIKE and its subsidiaries, inasmuch as the total amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of NIKE and its subsidiaries on a consolidated basis. NIKE agrees, pursuant to Item 601(b)(4)(iii) of Regulation S-K, that it will furnish a copy of any such instrument to the SEC upon request.

Upon written request to Investor Relations, NIKE, Inc., One Bowerman Drive, Beaverton, Oregon 97005-6453, NIKE will furnish shareholders with a copy of any Exhibit upon payment of $0.10 per page, which represents our reasonable expenses in furnishing Exhibits.

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(Dollars in millions)	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS(1)	WRITE-OFFS, NET	BALANCE AT END OF PERIOD
Sales returns reserve					
For the year ended May 31, 2017	$ 444	$ 696	$ 3	$ (800)	$ 343
For the year ended May 31, 2018	343	640	5	(658)	330
For the year ended May 31, 2019 (2)	734	1,959	(30)	(1,820)	843

(1) Amounts included in this column primarily relate to foreign currency translation.

(2) As a result of the adoption of ASC Topic 606 during the first quarter of fiscal 2019, an asset for the estimated cost of inventory for expected products returns is now recognized separately from the liability for sales returns reserves, which is presented above.

ITEM 16. FORM 10-K SUMMARY

None.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 033-63995, 333-63581, 333-63583, 333-68864, 333-68886, 333-71660, 333-104822, 333-117059, 333-133360, 333-164248, 333-171647, 333-173727, 333-208900 and 333-215439) of NIKE, Inc. of our report dated July 23, 2019 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Portland, Oregon
July 23, 2019

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.	
By:	/s/ MARK G. PARKER **Mark G. Parker** Chairman, President and Chief Executive Officer
Date:	July 23, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
PRINCIPAL EXECUTIVE OFFICER AND DIRECTOR:		
/s/ MARK G. PARKER **Mark G. Parker**	*Chairman, President and Chief Executive Officer*	July 23, 2019
PRINCIPAL FINANCIAL OFFICER:		
/s/ ANDREW CAMPION **Andrew Campion**	*Executive Vice President and Chief Financial Officer*	July 23, 2019
PRINCIPAL ACCOUNTING OFFICER:		
/s/ CHRIS L. ABSTON **Chris L. Abston**	*Corporate Controller*	July 23, 2019
DIRECTORS:		
/s/ CATHLEEN A. BENKO **Cathleen A. Benko**	*Director*	July 23, 2019
/s/ ELIZABETH J. COMSTOCK **Elizabeth J. Comstock**	*Director*	July 23, 2019
/s/ JOHN G. CONNORS **John G. Connors**	*Director*	July 23, 2019
/s/ TIMOTHY D. COOK **Timothy D. Cook**	*Director*	July 23, 2019
/s/ JOHN J. DONAHOE II **John J. Donahoe II**	*Director*	July 23, 2019
/s/ ALAN B. GRAF, JR. **Alan B. Graf, Jr.**	*Director*	July 23, 2019
/s/ PETER B. HENRY **Peter B. Henry**	*Director*	July 23, 2019
/s/ TRAVIS A. KNIGHT **Travis A. Knight**	*Director*	July 23, 2019
/s/ JOHN C. LECHLEITER **John C. Lechleiter**	*Director*	July 23, 2019
/s/ MICHELLE A. PELUSO **Michelle A. Peluso**	*Director*	July 23, 2019
/s/ JOHN W. ROGERS, JR. **John W. Rogers, Jr.**	*Director*	July 23, 2019
/s/ JOHN R. THOMPSON, JR. **John R. Thompson, Jr.**	*Director*	July 23, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED May 31, 2018
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO .
Commission File No. 1-10635

orangeswoosh06.jpg

NIKE, Inc.

(Exact name of Registrant as specified in its charter)

OREGON	**93-0584541**
(State or other jurisdiction of incorporation)	*(IRS Employer Identification No.)*
One Bowerman Drive, Beaverton, Oregon	**97005-6453**
(Address of principal executive offices)	*(Zip Code)*

(503) 671-6453
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Class B Common Stock	**New York Stock Exchange**
(Title of each class)	*(Name of each exchange on which registered)*

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
NONE

Indicate by check mark:	**YES**	**NO**
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☑	☐
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☑
• 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.	☑	☐
• whether the registrant has submitted electronically and posted on its corporate Website, 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).	☑	☐
• if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	☑	
• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐		
• if an emerging growth company, if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	☐	
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	☐	☑

As of November 30, 2017, the aggregate market values of the Registrant's Common Stock held by non-affiliates were:

Class A	$	4,475,052,736
Class B		78,093,099,655
	$	82,568,152,391

As of July 20, 2018, the number of shares of the Registrant's Common Stock outstanding were:

Class A	320,065,752
Class B	1,280,488,786
	1,600,554,538

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant’s Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2018 are incorporated by reference into Part III of this Report.

NIKE, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. Business

General

NIKE, Inc. was incorporated in 1967 under the laws of the State of Oregon. As used in this report, the terms "we," "us," "NIKE" and the "Company" refer to NIKE, Inc. and its predecessors, subsidiaries and affiliates, collectively, unless the context indicates otherwise. Our NIKE digital commerce website is located at *www.nike.com.* On our NIKE corporate website, located at *investors.nike.com,* we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the United States Securities and Exchange Commission (the "SEC"): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended. Our definitive Proxy Statements are also posted on our corporate website. All such filings on our corporate website are available free of charge. Copies of these filings may also be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330 and are available on the SEC's website (*www.sec.gov*). Also available on our corporate website are the charters of the committees of our Board of Directors, as well as our corporate governance guidelines and code of ethics; copies of any of these documents will be provided in print to any shareholder who submits a request in writing to NIKE Investor Relations, One Bowerman Drive, Beaverton, Oregon 97005-6453.

Our principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE-owned retail stores and through digital platforms (which we refer to collectively as our "NIKE Direct" operations), to retail accounts and a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Virtually all of our products are manufactured by independent contractors. Nearly all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.

Products

We focus our NIKE Brand product offerings in six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). We also market products designed for kids, as well as for other athletic and recreational uses such as American football, baseball, cricket, lacrosse, skateboarding, tennis, volleyball, wrestling, walking and outdoor activities.

NIKE's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. We place considerable emphasis on innovation and high-quality construction in the development and manufacturing of our products. Sportswear, Running and the Jordan Brand are currently our top-selling footwear categories and we expect them to continue to lead in footwear sales.

We also sell sports apparel covering the above-mentioned categories, which feature the same trademarks and are sold predominantly through the same marketing and distribution channels as athletic footwear. Our sports apparel, similar to our athletic footwear products, is designed primarily for athletic use and exemplifies our commitment to innovation and high-quality construction. Sportswear, Training and Running are currently our top-selling apparel categories and we expect them to continue to lead in apparel sales. We often market footwear, apparel and accessories in "collections" of similar use or by category. We also market apparel with licensed college and professional team and league logos.

We sell a line of performance equipment and accessories under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, digital devices, bats, gloves, protective equipment and other equipment designed for sports activities. We also sell small amounts of various plastic products to other manufacturers through our wholly-owned subsidiary, NIKE IHM, Inc., doing business as Air Manufacturing Innovation.

Our Jordan Brand designs, distributes and licenses athletic and casual footwear, apparel and accessories predominantly focused on basketball using the Jumpman trademark. Sales and operating results for Jordan Brand products are reported within the respective NIKE Brand geographic operating segments.

One of our wholly-owned subsidiary brands, Converse, headquartered in Boston, Massachusetts, designs, distributes and licenses casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

Another of our wholly-owned subsidiary brands, Hurley, headquartered in Costa Mesa, California, designs and distributes a line of action sports and youth lifestyle apparel and accessories under the Hurley trademark. Sales and operating results for Hurley products are included within the NIKE Brand's North America geographic operating segment.

In addition to the products we sell to our wholesale customers and directly to consumers through our NIKE Direct operations, we have also entered into license agreements that permit unaffiliated parties to manufacture and sell, using NIKE-owned trademarks, certain apparel, digital devices and applications and other equipment designed for sports activities.

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Sales and Marketing

Financial information about geographic and segment operations appears in Note 17 — Operating Segments and Related Information of the accompanying Notes to the Consolidated Financial Statements.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third quarters. However, the mix of product sales may vary considerably as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment, as well as other macroeconomic, operating and logistics-related factors.

Because NIKE is a consumer products company, the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. We must, therefore, respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories and influencing sports and fitness preferences through extensive marketing. Failure to respond in a timely and adequate manner could have a material adverse effect on our sales and profitability. This is a continuing risk. Refer to Item 1A. Risk Factors.

We report our NIKE Brand operations based on our internal geographic organization. Each NIKE Brand geographic segment operates predominantly in one industry: the design, development, marketing and selling of athletic footwear, apparel and equipment. In June 2017, we announced a new company alignment designed to allow NIKE to better serve the consumer personally, at scale. As a result of this organizational realignment, the Company's reportable operating segments for the NIKE Brand are: North America; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE, Jordan and Hurley brands. Sales through our NIKE Direct operations are managed within each geographic operating segment.

Converse is also a reportable segment and operates in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. Converse direct to consumer operations, including digital commerce, are reported within the Converse operating segment results.

United States Market

For fiscal 2018, NIKE Brand and Converse sales in the United States accounted for approximately 42% of total revenues, compared to 46% and 47% for fiscal 2017 and fiscal 2016, respectively. We sell our NIKE Brand, Jordan Brand, Hurley and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops and other retail accounts. In the United States, we utilize NIKE sales offices to solicit such sales. During fiscal 2018, our three largest customers accounted for approximately 21% of sales in the United States.

Our NIKE Direct and Converse direct to consumer operations sell NIKE Brand, Jordan Brand, Hurley and Converse products to consumers through various digital platforms. In addition, our NIKE Direct and Converse direct to consumer operations sell through the following number of retail stores in the United States:

U.S. Retail Stores	Number
NIKE Brand factory stores	220
NIKE Brand in-line stores (including employee-only stores)	31
Converse stores (including factory stores)	112
Hurley stores (including factory and employee stores)	29
TOTAL	**392**

In the United States, NIKE has seven significant distribution centers. Five are located in Memphis, Tennessee, two of which are owned and three of which are leased. Two other distribution centers, one located in Indianapolis, Indiana, and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. NIKE Brand apparel and equipment are also shipped from our Foothill Ranch, California distribution center, which we lease. Smaller leased, and third-party leased and operated, distribution facilities are located in various parts of the United States.

International Markets

For fiscal 2018, non-U.S. NIKE Brand and Converse sales accounted for approximately 58% of total revenues, compared to 54% and 53% for fiscal 2017 and fiscal 2016, respectively. We sell our products to retail accounts, through our own NIKE Direct operations and through a mix of independent distributors, licensees and sales representatives around the world. We sell to thousands of retail accounts and ship products from 62 distribution centers outside of the United States. During fiscal 2018, NIKE's three largest customers outside of the United States accounted for approximately 13% of total non-U.S. sales.

In addition to NIKE and Converse owned digital commerce platforms in over 45 countries, our NIKE Direct and Converse direct to consumer businesses operate the following number of retail stores outside the United States:

Non-U.S. Retail Stores	Number
NIKE Brand factory stores	664

NIKE Brand in-line stores (including employee-only stores)	65
Converse stores (including factory stores)	61
TOTAL	**790**

International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Macau, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Panama, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

Significant Customer

No customer accounted for 10% or more of our worldwide net revenues during fiscal 2018.

Product Research, Design and Development

We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while reducing waste.

In addition to our own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, we also utilize research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts who consult with us and review designs, materials, concepts for product and manufacturing process improvements and compliance with product safety regulations around the world. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

As we continue to develop new technologies, we are simultaneously focused on the design of innovative products incorporating such technologies throughout our product categories. Using market intelligence and research, our various design teams identify opportunities to leverage new technologies in existing categories responding to consumer preferences. The proliferation of NIKE Air, Lunar, Zoom, Free, Flywire, Dri-Fit, Flyknit, Flyweave, ZoomX, React and NIKE+ technologies throughout our Running, NIKE Basketball, Jordan Brand, Football (Soccer), Training and Sportswear categories, among others, typifies our dedication to designing innovative products.

Manufacturing

We are supplied by 124 footwear factories located in 13 countries. The largest single footwear factory accounted for approximately 9% of total fiscal 2018 NIKE Brand footwear production. Virtually all of our footwear is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2018, contract factories in Vietnam, China and Indonesia manufactured approximately 47%, 26% and 21% of total NIKE Brand footwear, respectively. We also have manufacturing agreements with independent contract manufacturers in Argentina, India, Brazil, Mexico and Italy to manufacture footwear for sale primarily within those countries. For fiscal 2018, five footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 69% of NIKE Brand footwear production.

We are supplied by 328 apparel factories located in 37 countries. The largest single apparel factory accounted for approximately 13% of total fiscal 2018 NIKE Brand apparel production. Virtually all of our apparel is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2018, contract factories in China, Vietnam and Thailand produced approximately 26%, 18% and 10% of total NIKE Brand apparel, respectively. For fiscal 2018, one apparel contract manufacturer accounted for more than 10% of apparel production, and the top five contract manufacturers in the aggregate accounted for approximately 47% of NIKE Brand apparel production.

The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and canvas, as well as polyurethane films used to make NIKE Air-Sole cushioning components. During fiscal 2018, Air Manufacturing Innovation, with facilities near Beaverton, Oregon and in St. Charles, Missouri, as well as independent contractors in China and Vietnam, were our suppliers of the Air-Sole cushioning components used in footwear. The principal materials used in our apparel products are natural and synthetic fabrics and threads (both virgin and recycled); specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow; and plastic and metal hardware. NIKE's independent contractors and suppliers buy raw materials for the manufacturing of our footwear, apparel and equipment products. Most raw materials are available and purchased by those independent contractors and suppliers in the countries where manufacturing takes place. NIKE's independent contract manufacturers and suppliers have thus far experienced little difficulty in satisfying raw material requirements for the production of our products.

Since 1972, Sojitz Corporation of America ("Sojitz America"), a large Japanese trading company and the sole owner of our redeemable preferred stock, has performed significant import-export financing services for us. During fiscal 2018, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Brazil, Canada, India, South Africa and Uruguay, excluding products produced and sold in the same country. Approximately 6% of NIKE Brand sales occurred in those countries. Any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in those markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability. However, we believe that any such disruption would be short-term in duration due to the ready availability of alternative sources of financing at competitive rates. Our current agreements with Sojitz America expire on May 31, 2019.

International Operations and Trade

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as the implementation of, or potential changes in, foreign and domestic trade policies, increases in import duties, anti-dumping measures, quotas, safeguard measures, trade restrictions, restrictions on the transfer of funds and, in certain parts of the world, political instability and terrorism. We have not, to date, been materially affected by any such risk, but cannot predict the likelihood of such material effects occurring in the future.

In recent years, uncertain global and regional economic and political conditions have affected international trade and increased protectionist actions around the world. These trends are affecting many global manufacturing and service sectors, and the footwear and apparel industries, as a whole, are not immune. Companies in our industry are facing trade protectionism in many different regions, and in nearly all cases we are working together with industry groups to address trade issues and reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, protectionist measures have resulted in increases in the cost of our products, and additional measures, if implemented, could adversely affect sales and/or profitability for NIKE, as well as the imported footwear and apparel industry as a whole.

We monitor protectionist trends and developments throughout the world that may materially impact our industry, and we engage in administrative and judicial processes to mitigate trade restrictions. We are actively monitoring actions that may result in additional anti-dumping measures and could affect our industry. We are also monitoring for and advocating against other impediments that may limit or delay customs clearance for imports of footwear, apparel and equipment. Changes in U.S. trade policies, including new and potential tariffs or penalties on imported goods, may negatively affect U.S. corporations with production activities outside the U.S., including NIKE. There have also been discussions and commentary regarding retaliatory actions by countries affected by the new tariffs and other changes in U.S. trade policy, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods, which could negatively affect U.S. corporations with business operations and/or consumer markets in those countries. Depending on the extent that certain new or proposed reforms are implemented by the U.S. government and the manner in which foreign governments respond to such reforms, it may become necessary for us to change the way we conduct business, which may adversely affect our results of operations. In addition, with respect to proposed trade restrictions targeting China, which represents an important sourcing country and consumer market for us, we are working with a broad coalition of global businesses and trade associations representing a wide variety of sectors to help ensure that any legislation enacted and implemented (i) addresses legitimate and core concerns, (ii) is consistent with international trade rules and (iii) reflects and considers China's domestic economy and the important role it has in the global economic community.

Where trade protection measures are implemented, we believe that we have the ability to develop, over a period of time, adequate alternative sources of supply for the products obtained from our present suppliers. If events prevented us from acquiring products from our suppliers in a particular country, our operations could be temporarily disrupted and we could experience an adverse financial impact. However, we believe we could abate any such disruption, and that much of the adverse impact on supply would, therefore, be of a short-term nature, although alternate sources of supply might not be as cost-effective and could have an ongoing adverse impact on profitability.

NIKE advocates for trade liberalization for footwear and apparel in a number of regional and bilateral free trade agreements.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. We source a significant portion of our products from, and have important consumer markets, outside of the United States, and we have policies and procedures to address compliance with the FCPA and similar laws by us, our employees, agents, suppliers and other partners.

Competition

The athletic footwear, apparel and equipment industry is highly competitive on a worldwide basis. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment, including adidas, Anta, ASICS, Li Ning, lululemon athletica, Puma, Under Armour and V.F. Corporation, among others. The intense competition and the rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations.

NIKE is the largest seller of athletic footwear and apparel in the world. Important aspects of competition in this industry are:

- Product attributes such as quality; performance and reliability; new product innovation and development and consumer price/value.
- Consumer connection and affinity for brands and products, developed through marketing and promotion; social media interaction; customer support and service; identification with prominent and influential athletes, public figures, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics.
- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and online.

We believe that we are competitive in all of these areas.

Trademarks and Patents

We believe that our intellectual property rights are important to our brand, our success and our competitive position. We pursue available protections of these rights and vigorously protect them against third-party theft and infringement.

We utilize trademarks on nearly all of our products and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and the Company, and in distinguishing our goods from the goods of others. We consider our NIKE and Swoosh trademarks to be among our most valuable assets and we have registered these trademarks in almost 170 jurisdictions worldwide. In addition, we own many other trademarks that we utilize in marketing our products. We own common law rights in the trade dress of several significant shoe designs and elements. For certain trade dress, we have sought and obtained trademark registrations.

We have copyright protection in our design, graphics and other original works. In some instances, we also obtain registered copyrights.

We own patents and have a license under other patents, which facilitate our use of “Air” technologies.

We file for, own and maintain many U.S. and foreign utility patents, as well as many U.S. and foreign design patents protecting components, technologies, materials, manufacturing techniques, features, functionality, and industrial and aesthetic designs used in and for the manufacture of various athletic and leisure footwear and apparel, athletic equipment and digital devices and related software applications. These patents expire at various times.

We believe our success depends upon our capabilities in areas such as design, research and development, production and marketing rather than exclusively upon our patent and trade secret positions.

However, we have followed a policy of filing patent applications in the United States and select foreign countries on inventions, designs and improvements that we deem valuable. We also continue to vigorously protect our trademarks and patents against third-party infringement.

Employees

As of May 31, 2018, we had approximately 73,100 employees worldwide, including retail and part-time employees. Management is committed to maintaining an environment where all NIKE employees have the opportunity to reach their full potential. None of our employees are represented by a union, except for certain employees in the Asia Pacific & Latin America geography, where local law requires those employees to be represented by a trade union. Also, in some countries outside of the United States, local laws require employee representation by works councils (which may be entitled to information and consultation on certain Company decisions) or by organizations similar to a union. In certain European countries, we are required by local law to enter into and/or comply with industry-wide or national collective bargaining agreements. NIKE has never experienced a material interruption of operations due to labor disagreements.

Executive Officers of the Registrant

The executive officers of NIKE, Inc. as of July 24, 2018 are as follows:

Mark G. Parker, Chairman, President and Chief Executive Officer — Mr. Parker, 62, was appointed President and Chief Executive Officer in January 2006 and named Chairman of the Board in June 2016. He has been employed by NIKE since 1979 with primary responsibilities in product research, design and development, marketing and brand management. Mr. Parker was appointed divisional Vice President in charge of product development in 1987, corporate Vice President in 1989, General Manager in 1993, Vice President of Global Footwear in 1998 and President of the NIKE Brand in 2001.

Chris L. Abston, Vice President and Corporate Controller — Mr. Abston, 55, joined NIKE in 2015 from Wal-Mart Stores, Inc., where he served as Vice President, Global Controls and Governance since February 2015. Prior to that he was Vice President and Controller of Walmart International from February 2013 to January 2015, responsible for the oversight of international accounting and reporting, and Vice President and Assistant Controller of Wal-Mart Stores, Inc. from May 2011 to January 2013. Before joining Wal-Mart, Mr. Abston spent 25 years in public accounting with Ernst & Young LLP, most recently leading its Strategic Growth Markets practice as a Partner in the Dallas office.

Andrew Campion, Executive Vice President and Chief Financial Officer — Mr. Campion, 46, joined NIKE in 2007 as Vice President of Global Planning and Development, leading strategic and financial planning. He was appointed Chief Financial Officer of the NIKE Brand in 2010, responsible for leading all aspects of financial management for the Company's flagship brand. In 2014, he was appointed Senior Vice President, Strategy, Finance and Investor Relations in addition to his role as Chief Financial Officer of NIKE Brand. Mr. Campion assumed the role of Executive Vice President and Chief Financial Officer in August 2015. Prior to joining NIKE, he held leadership roles in strategic planning, mergers and acquisitions, financial planning and analysis, operations and planning, investor relations and tax at The Walt Disney Company from 1996 to 2007.

Elliott Hill, President, Consumer and Marketplace — Mr. Hill, 54, joined NIKE in 1988, with primary responsibilities in sales and retail. He has served as Apparel Sales Director in Europe, Retail Development Director in Europe, Vice President of Sales and Retail in EMEA, General Manager of US Retail, Vice President of US Sales, Retail and NIKE.com, and Vice President of Global Retail. Most recently, Mr. Hill served as President of Geographies and Sales and Vice President and General Manager of North America. Mr. Hill was appointed President, Consumer and Marketplace in March 2018.

Hilary K. Krane, Executive Vice President, Chief Administrative Officer and General Counsel — Ms. Krane, 54, joined NIKE as Vice President and General Counsel in April 2010. In 2011, her responsibilities expanded, and she became Vice President, General Counsel and Corporate Affairs. Ms. Krane was appointed Executive Vice President, Chief Administrative Officer and General Counsel in 2013. Prior to joining NIKE, Ms. Krane was General Counsel and Senior Vice President for Corporate Affairs at Levi Strauss & Co. from 2006 to 2010. From 1996 to 2006, she was a Partner and Assistant General Counsel at PricewaterhouseCoopers LLP.

Monique S. Matheson, Executive Vice President, Global Human Resources — Ms. Matheson, 51, joined NIKE in 1998, with primary responsibilities in the human resources function. She was appointed as Vice President and Senior Business Partner in 2011 and Vice President, Chief Talent and Diversity Officer in 2012. Ms. Matheson was appointed Executive Vice President, Global Human Resources in July 2017.

John F. Slusher, Executive Vice President, Global Sports Marketing — Mr. Slusher, 49, joined NIKE in 1998, with primary responsibilities in global sports marketing. Mr. Slusher was appointed Director of Sports Marketing for Asia Pacific and Americas in 2006, divisional Vice President of Asia Pacific & Americas Sports Marketing in September 2007 and Vice President, Global Sports Marketing in November 2007. Prior to joining NIKE, Mr. Slusher was an attorney at the law firm of O'Melveny & Myers from 1995 to 1998.

Eric D. Sprunk, Chief Operating Officer — Mr. Sprunk, 54, joined NIKE in 1993. He was appointed Finance Director and General Manager of the Americas in 1994, Finance Director for NIKE Europe in 1995, Regional General Manager of NIKE Europe Footwear in 1998 and Vice President & General Manager of the Americas in 2000. Mr. Sprunk was appointed Vice President of Global

Footwear in 2001, Vice President of Merchandising and Product in 2009 and Chief Operating Officer in 2013. Prior to joining NIKE, Mr. Sprunk was a certified public accountant with Price Waterhouse from 1987 to 1993.

ITEM 1A. Risk Factors

Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historic 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 SEC, 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 SEC, 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 technology 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 orders may not be indicative of future revenues due to changes in shipment timing, the changing mix of orders with shorter lead times, 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, including without limitation, through social media or in connection with brand damaging events; 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 of the United States, including, without limitation, exchange rate fluctuations, inflation, import duties, tariffs, quotas, political and economic instability and terrorism; the impact of recent U.S. tax reform legislation on our results of operations; the potential impact of new laws, regulations or policy, including, without limitation, tariffs, import/export, trade and immigration regulations or policies; changes in government regulations; the impact of, including business and legal developments relating to, climate change and natural disasters; litigation, regulatory proceedings and other claims asserted against NIKE; the ability to attract and retain qualified employees, and any negative public perception with respect to key personnel; the effects of NIKE's 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.

Our products face intense competition.

NIKE is a consumer products company and the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. The athletic footwear, apparel and equipment industry is highly competitive both in the United States and worldwide. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment. We also compete with other companies for the production capacity of independent manufacturers that produce our products. Our NIKE Direct operations, both through our digital commerce operations and retail stores, also compete with multi-brand retailers selling our products.

Product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, customer service, digital commerce platforms and social media presence are areas of intense competition. This, in addition to rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations. In addition, the competitive nature of retail including shifts in the ways in which consumers are shopping, and the rising trend of digital commerce, constitutes a risk factor implicating our NIKE Direct and wholesale operations. If we do not adequately and timely anticipate and respond to our competitors, our costs may increase or the consumer demand for our products may decline significantly.

Failure to maintain our reputation and brand image could negatively impact our business.

Our iconic brands have worldwide recognition, and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining, promoting and growing our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, product innovation and product quality. Our commitment to product innovation and quality and our continuing investment in design (including materials) and marketing may not have the desired impact on our brand image and reputation. In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and digital dissemination of advertising campaigns. We could be adversely impacted if we fail to achieve any of these objectives.

Our brand value also depends on our ability to maintain a positive consumer perception of our corporate integrity and brand culture. Negative claims or publicity involving us, our products or any of our key employees, endorsers, sponsors or suppliers could seriously damage our reputation and brand image, regardless of whether such claims are accurate. Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Adverse publicity about regulatory or legal action against us, or by us, could also damage our reputation and brand image, undermine consumer confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. If the reputation or image of any of our brands is tarnished or if we receive negative publicity, then our product sales, financial condition and results of operations could be materially and adversely affected.

If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our revenues and profits.

Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. However, lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, and influencing sports and fitness preferences through extensive marketing, we could experience lower sales, excess inventories or lower profit margins, any of which could have an adverse effect on our results of operations and financial condition. In addition, we market our products globally through a diverse spectrum of advertising and promotional programs and campaigns, including social media, mobile applications and online advertising. If we do not successfully market our products or if advertising and promotional costs increase, these factors could have an adverse effect on our business, financial condition and results of operations.

We rely on technical innovation and high-quality products to compete in the market for our products.

Technical innovation and quality control in the design and manufacturing process of footwear, apparel and athletic equipment is essential to the commercial success of our products. Research and development play a key role in technical innovation. We rely upon specialists in the fields of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, as well as research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts to develop and test cutting-edge performance products. While we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems.

Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.

We establish relationships with professional athletes, sports teams and leagues, as well as other public figures, to develop, evaluate and promote our products, as well as establish product authenticity with consumers. However, as competition in our industry has increased, the costs associated with establishing and retaining such sponsorships and other relationships have increased. If we are unable to maintain our current associations with professional athletes, sports teams and leagues, or other public figures, or to do so at a reasonable cost, we could lose the high visibility or on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brands, net revenues, expenses and profitability could be harmed.

Furthermore, if certain endorsers were to stop using our products contrary to their endorsement agreements, our business could be adversely affected. In addition, actions taken by athletes, teams or leagues, or other endorsers, associated with our products that harm the reputations of those athletes, teams or leagues, or endorsers, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition. In addition, poor performance by our endorsers, a failure to continue to correctly identify promising athletes, or public figures, to use and endorse our products or a failure to enter into cost-effective endorsement arrangements with prominent athletes, public figures, and sports organizations could adversely affect our brand, sales and profitability.

General economic factors beyond our control, and changes in the global economic environment, including fluctuations in inflation and currency exchange rates, could result in lower revenues, higher costs and decreased margins and earnings.

A majority of our products are manufactured and sold outside of the United States, and we conduct purchase and sale transactions in various currencies, which increases our exposure to the volatility of global economic conditions, including fluctuations in inflation and foreign currency exchange rates. Additionally, there has been, and may continue to be, volatility in currency exchange rates as a result of the United Kingdom's impending exit from the European Union, commonly referred to as "Brexit" and new or proposed U.S. policy changes. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into U.S. Dollars for consolidated financial reporting, as weakening of foreign currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations have adversely affected and could continue to have an adverse effect on our results of operations and financial condition.

We may hedge certain foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger U.S. Dollar or other trading currency, but they also reduce the positive impact of a weaker U.S. Dollar or other trading currency. Our future financial results could be significantly affected by the value of the U.S. Dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

Global economic conditions could have a material adverse effect on our business, operating results and financial condition.

The uncertain state of the global economy continues to impact businesses around the world, most acutely in emerging markets and developing economies. If global economic and financial market conditions do not improve or deteriorate, the following factors could have a material adverse effect on our business, operating results and financial condition:

- Slower consumer spending may result in reduced demand for our products, reduced orders from retailers for our products, order cancellations, lower revenues, higher discounts, increased inventories and lower gross margins.
- In the future, we may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so.
- We conduct transactions in various currencies, which increases our exposure to fluctuations in foreign currency exchange rates relative to the U.S. Dollar. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies, including in response to certain policies advocated or implemented by the U.S. presidential administration, could have a significant impact on our reported operating results and financial condition.
- Continued volatility in the availability and prices for commodities and raw materials we use in our products and in our supply chain (such as cotton or petroleum derivatives) could have a material adverse effect on our costs, gross margins and profitability.
- If retailers of our products experience declining revenues or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, late retailer payments, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense.
- If retailers of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could negatively impact the sale of our products to consumers.
- If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products.

Our business is affected by seasonality, which could result in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third fiscal quarters. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment and in connection with the timing of significant sporting events, such as the NBA Finals, Olympics or the World Cup, among others. In addition, our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including general economic conditions, changes in consumer preferences, weather conditions, availability of import quotas, transportation disruptions and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of additional factors that are beyond our control, including manufacturing and transportation costs, shifts in product sales mix and geographic sales trends, all of which we expect to continue. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

We may be adversely affected by the financial health of our customers.

We extend credit to our customers based on an assessment of a customer’s financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of our products, we offer certain customers the opportunity to place orders five to six months ahead of delivery under our futures ordering program. These advance orders may be canceled under certain conditions, and the risk of cancellation may increase when dealing with financially unstable retailers or retailers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties up to and including bankruptcies, which have had an adverse effect on our sales, our ability to collect on receivables and our financial condition. When the retail economy weakens or as consumer behavior shifts, retailers may be more cautious with orders. A slowing or changing economy in our key markets could adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operations and financial condition. In addition, product sales are dependent in part on high quality merchandising and an appealing retail environment to attract consumers, which requires continuing investments by retailers. Retailers that experience financial difficulties may fail to make such investments or delay them, resulting in lower sales and orders for our products.

Failure to accurately forecast consumer demand could lead to excess inventories or inventory shortages, which could result in decreased operating margins, reduced cash flows and harm to our business.

To meet anticipated demand for our products, we purchase products from manufacturers outside of our futures ordering program and in advance of customer orders, which we hold in inventory and resell to customers. There is a risk we may be unable to sell excess products ordered from manufacturers. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have an adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer, distributor and consumer relationships and diminish brand loyalty. The difficulty in forecasting demand also makes it difficult to estimate our future results of operations, financial condition and cash flows from period to period. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income, and we are unlikely to forecast such effects with any certainty in advance.

Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk and impair our ability to sell products.

The athletic footwear, apparel and equipment retail markets in some countries are dominated by a few large athletic footwear, apparel and equipment retailers with many stores. These retailers have in the past increased their market share by expanding through acquisitions and construction of additional stores. These situations concentrate our credit risk with a relatively small number of retailers, and, if any of these retailers were to experience a shortage of liquidity or consumer behavior shifts away from traditional retail, it would increase the risk that their outstanding payables to us may not be paid. In addition, increasing market share concentration among one or a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our products, we may be unable to find a sufficient number of other retail outlets for our products to sustain the same level of sales and revenues.

Our NIKE Direct operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

Our NIKE Direct stores have required substantial fixed investment in equipment and leasehold improvements, information systems and personnel. We have entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than other stores. Due to the high fixed-cost structure associated with our NIKE Direct operations, a decline in sales, a shift in consumer behavior away from brick-and-mortar retail, or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and employee-related costs.

Many factors unique to retail operations, some of which are beyond the Company's control, pose risks and uncertainties. Risks include, but are not limited to: credit card fraud; mismanagement of existing retail channel partners; and inability to manage costs associated with store construction and operation. In addition, extreme weather conditions in the areas in which our stores are located could adversely affect our business.

If the technology-based systems that give our customers the ability to shop with us online do not function effectively, our operating results, as well as our ability to grow our digital commerce business globally, could be materially adversely affected.

Many of our customers shop with us through our digital platforms. Increasingly, customers are using mobile-based devices and applications to shop online with us and with our competitors, and to do comparison shopping. We are increasingly using social media and proprietary mobile applications to interact with our customers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, user-friendly digital commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers could place us at a competitive disadvantage, result in the loss of digital commerce and other sales, harm our reputation with customers, have a material adverse impact on the growth of our digital commerce business globally and could have a material adverse impact on our business and results of operations.

Risks specific to our digital commerce business also include diversion of sales from our and our retailers' brick and mortar stores, difficulty in recreating the in-store experience through direct channels and liability for online content. Our failure to successfully respond to these risks might adversely affect sales in our digital commerce business, as well as damage our reputation and brands.

Failure to adequately protect or enforce our intellectual property rights could adversely affect our business.

We periodically discover counterfeit reproductions of our products or products that otherwise infringe our intellectual property rights. If we are unsuccessful in enforcing our intellectual property rights, continued sales of these products could adversely affect our sales and our brand and could result in a shift of consumer preference away from our products.

The actions we take to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others. We also may be unable to prevent others from seeking to block sales of our products as violations of proprietary rights.

We may be subject to liability if third parties successfully claim we infringe on their intellectual property rights. Defending infringement claims could be expensive and time-consuming and might result in our entering into costly license agreements. We also may be subject to significant damages or injunctions against development, use, importation and/or sale of certain products.

We take various actions to prevent the unauthorized use and/or disclosure of our confidential information and intellectual property rights. These actions include contractual measures such as entering into non-disclosure and non-compete agreements and agreements relating to our collaborations with third parties and providing confidential information awareness training. Our controls and efforts to prevent unauthorized use and/or disclosure of confidential information and intellectual property rights might not always be effective. For example, confidential information related to business strategy, new technologies, mergers and acquisitions, unpublished financial results or personal data could be prematurely or inadvertently used and/or disclosed, resulting in a loss of reputation, a decline in our stock price and/or a negative impact on our market position, and could lead to damages, fines, penalties or injunctions.

In addition, the laws of certain countries may not protect or allow enforcement of intellectual property rights to the same extent as the laws of the United States. We may face significant expenses and liability in connection with the protection of our intellectual property rights, including outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

We are subject to the risk our licensees may not generate expected sales or maintain the value of our brands.

We currently license, and expect to continue licensing, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. If our licensees fail to successfully market and sell licensed products, or fail to obtain sufficient capital or effectively manage their business operations, customer relationships, labor relationships, supplier relationships or credit risks, it could adversely affect our revenues, both directly from reduced royalties received and indirectly from reduced sales of our other products.

We also rely on our licensees to help preserve the value of our brands. Although we attempt to protect our brands through approval rights over the design, production processes, quality, packaging, merchandising, distribution, advertising and promotion of our licensed products, we cannot completely control the use of our licensed brands by our licensees. The misuse of a brand by or negative publicity involving a licensee could have a material adverse effect on that brand and on us.

We are subject to data security and privacy risks that could negatively affect our results, operations or reputation.

In addition to our own sensitive and proprietary business information, we collect transactional and personal information about our customers and users of our digital experiences, which include online distribution channels and product engagement and personal fitness applications. Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks. Any breach of our or our service providers' network, or other vendor systems, may result in the loss of confidential business and financial data, misappropriation of our consumers', users' or employees' personal information or a disruption of our business. Any of these outcomes could have a material adverse effect on our business, including unwanted media attention, impairment of our consumer and customer relationships, damage to our reputation; resulting in lost sales and consumers, fines, lawsuits, or significant legal and remediation expenses. We also may need to expend significant resources to protect against, respond to and/or redress problems caused by any breach.

In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S., Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation (the "GDPR"), which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR) and regulations can be costly; any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, damage to our reputation and credibility and could have a negative impact on revenues and profits.

Failure of our contractors or our licensees' contractors to comply with our code of conduct, local laws and other standards could harm our business.

We work with hundreds of contractors outside of the United States to manufacture our products, and we also have license agreements that permit unaffiliated parties to manufacture or contract for the manufacture of products using our intellectual property. We require the contractors that directly manufacture our products and our licensees that make products using our intellectual property (including, indirectly, their contract manufacturers) to comply with a code of conduct and other environmental, health and safety standards for the benefit of workers. We also require these contractors to comply with applicable standards for product safety. Notwithstanding their contractual obligations, from time to time contractors may not comply with such standards or applicable local law or our licensees may fail to enforce such standards or applicable local law on their contractors. Significant or continuing noncompliance with such standards and laws by one or more contractors could harm our reputation or result in a product recall and, as a result, could have an adverse effect on our sales and financial condition. Negative publicity regarding production methods, alleged practices or workplace or related conditions of any of our suppliers, manufacturers or licensees could adversely affect our brand image and sales and force us to locate alternative suppliers, manufacturers or licenses.

Our international operations involve inherent risks which could result in harm to our business.

Virtually all of our athletic footwear and apparel is manufactured outside of the United States, and the majority of our products are sold outside of the United States. Accordingly, we are subject to the risks generally associated with global trade and doing business abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political unrest, disruptions or delays in cross-border shipments and changes in economic conditions in countries in which our products are manufactured or where we sell products. This includes, for example, the uncertainty surrounding the effect of Brexit, including changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union, as well as new and proposed changes affecting tax laws and trade policy in the U.S. and elsewhere as further described below under "*We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate*" and "*Changes to U.S. trade policy, tariff and import/export regulations may have a material adverse effect on our business, financial condition and results of operations*." The U.S. presidential administration has indicated a focus on policy reforms that discourage U.S. corporations from outsourcing manufacturing and production activities to foreign jurisdictions, including through tariffs or penalties on goods manufactured outside the U.S., which may require us to change the way we conduct business and adversely affect our results of operations. The administration has also targeted the specific practices of certain U.S. multinational corporations in public statements which, if directed at us, could harm our reputation or otherwise negatively impact our business.

In addition, disease outbreaks, terrorist acts and military conflict have increased the risks of doing business abroad. These factors, among others, could affect our ability to manufacture products or procure materials, our ability to import products, our ability to sell products in international markets and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be adversely affected. In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States and other countries. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, safeguard measures, anti-dumping duties, cargo restrictions to prevent terrorism, restrictions on the transfer of currency, climate change legislation, product safety regulations or other charges or restrictions, any of which could have an adverse effect on our results of operations and financial condition.

We could be subject to changes in tax rates, adoption of new tax laws, additional tax liabilities or increased volatility in our effective tax rate.

We are subject to the tax laws in the United States and numerous foreign jurisdictions. Current economic and political conditions make tax laws and regulations, or their interpretation and application, in any jurisdiction subject to significant change. On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Tax Act”), which includes a number of significant changes to previous U.S. tax laws that impact us, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings, and a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, among other changes. The Tax Act also transitions U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which has the effect of subjecting certain earnings of our foreign subsidiaries to U.S. taxation.

Implementation of the Tax Act required us to record incremental provisional tax expense in fiscal 2018, which increased our effective tax rate in fiscal 2018. Adjustments to the incremental provisional tax expense may be made in future periods as actual amounts may differ due to, among other factors, a change in interpretation of the applicable revisions to the U.S. tax code and related tax accounting guidance, changes in assumptions made in developing these estimates, regulatory guidance that may be issued with respect to the applicable revisions to the U.S. tax code, and state tax implications. As we complete our analysis of the Tax Act, we may make adjustments to provisional amounts we have recorded, which could negatively impact our business, results of operations or financial condition. Changes or challenges to or the repeal of the Tax Act cannot be predicted with certainty and could have a material impact on our future tax expense.

We earn a substantial portion of our income in foreign countries and are subject to the tax laws of those jurisdictions. There have been proposals to reform foreign tax laws that could significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form these proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our income tax expense and cash flows.

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays and rulings that expire in whole or in part from time to time. These tax holidays and rulings may be extended when certain conditions are met, or terminated if certain conditions are not met. If the tax holidays and rulings are not extended, or if we fail to satisfy the conditions of the reduced tax rate, our effective income tax rate would increase in the future.

We are also subject to the examination of our tax returns by the United States Internal Revenue Service ("IRS") and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for income taxes. Although we believe our tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from our historical income tax provisions and accruals, particularly in light of the enactment of the Tax Act. The results of audits or related disputes could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. For example, we and our subsidiaries are engaged in a number of intercompany transactions across multiple tax jurisdictions. Although we believe we have clearly reflected the economics of these transactions and the proper local transfer pricing documentation is in place, tax authorities may propose and sustain adjustments that could result in changes that may impact our mix of earnings in countries with differing statutory tax rates.

Changes to U.S. trade policy, tariff and import/export regulations may have a material adverse effect on our business, financial condition and results of operations.

Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business, as well as any negative sentiment toward the U.S. as a result of such changes, could adversely affect our business. The U.S. presidential administration has instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business. It may be time-consuming and expensive for us to alter our business operations in order to adapt to or comply with any such changes.

As a result of recent policy changes of the U.S. presidential administration and recent U.S. government proposals, there may be greater restrictions and economic disincentives on international trade. The new tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. The Company, similar to many other multinational corporations, does a significant amount of business that would be impacted by changes to the trade policies of the U.S. and foreign countries (including governmental action related to tariffs, international trade agreements, or economic sanctions). Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations.

If one or more of our counterparty financial institutions default on their obligations to us or fail, we may incur significant losses.

As part of our hedging activities, we enter into transactions involving derivative financial instruments, which may include forward contracts, commodity futures contracts, option contracts, collars and swaps with various financial institutions. In addition, we have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the United States and abroad. As a result, we are exposed to the risk of default by or failure of counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default, or our assets deposited or held in accounts with such counterparty, may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

We rely on a concentrated source base of contract manufacturers to supply a significant portion of our footwear products.

NIKE is supplied by 124 footwear factories located in 13 countries. We do not own or operate any of the footwear manufacturing facilities and depend upon independent contract manufacturers to manufacture all of the footwear products we sell. In fiscal 2018, five footwear contract manufacturers each accounted for greater than 10% of fiscal 2018 footwear production and in aggregate accounted for approximately 69% of NIKE Brand footwear production in fiscal 2018. Our ability to meet our customers' needs depends on our ability to maintain a steady supply of products from our independent contract manufacturers. If one or more of our significant suppliers were to sever their relationship with us or significantly alter the terms of our relationship, including due to changes in applicable trade policies, we may not be able to obtain replacement products in a timely manner, which could have a material adverse effect on our sales, financial condition or results of operations. Additionally, if any of our primary contract manufacturers fail to make timely shipments, do not meet our quality standards or otherwise fail to deliver us product in accordance with our plans, there could be a material adverse effect on our results of operations.

Our products are subject to risks associated with overseas sourcing, manufacturing and financing.

The principal materials used in our apparel products — natural and synthetic fabrics and threads, specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat or repel rain and/or snow as well as plastic and metal hardware — are available in countries where our manufacturing takes place. The principal materials used in our footwear products — natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, natural and synthetic fabrics and threads, nylon, canvas and polyurethane films — are also locally available to manufacturers. Both our apparel and footwear products are dependent upon the ability of our unaffiliated contract manufacturers to locate, train, employ and retain adequate personnel. NIKE contractors and suppliers buy raw materials and are subject to wage rates that are oftentimes regulated by the governments of the countries in which our products are manufactured.

There could be a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption, our contract manufacturers might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price or at all. Further, our unaffiliated contract manufacturers have experienced and may continue to experience in the future, unexpected increases in work wages, whether government mandated or otherwise and increases in compliance costs due to governmental regulation concerning certain metals used in the manufacturing of our products. In addition, we cannot be certain that our unaffiliated manufacturers will be able to fill our orders in a timely manner. If we experience significant increases in demand, or reductions in the availability of materials, or need to replace an existing manufacturer, there can be no assurance additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms acceptable to us, or at all, or that any supplier or manufacturer would allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing or sources of materials, we may encounter delays in production and added costs as a result of the time it takes to train suppliers and manufacturers in our methods, products, quality control standards and labor, health and safety standards. Any delays, interruption or increased costs in labor or wages, or the supply of materials or manufacture of our products could have an adverse effect on our ability to meet retail customer and consumer demand for our products and result in lower revenues and net income both in the short- and long-term.

Because independent manufacturers make a majority of our products outside of our principal sales markets, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, work stoppages, port strikes, infrastructure congestion or other factors, and costs and delays associated with consolidating or transitioning between manufacturers, could adversely impact our financial performance. In addition, manufacturing delays or unexpected demand for our products may require us to use faster, but more expensive, transportation methods such as air freight, which could adversely affect our profit margins. The cost of oil is a significant component in manufacturing and transportation costs, so increases in the price of petroleum products can adversely affect our profit margins. Changes in U.S. trade policies, including new and potential changes to import tariffs and existing trade policies and agreements, could also have a significant impact on our activities in foreign jurisdictions, and could adversely affect our results of operations.

In addition, Sojitz America performs significant import-export financing services for the Company. During fiscal 2018, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Brazil, Canada, India, South Africa and Uruguay (collectively the “Sojitz Markets”), excluding products produced and sold in the same country. Any failure of Sojitz America to provide these services or any failure of Sojitz America’s banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in the Sojitz Markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability.

Our success depends on our global distribution facilities.

We distribute our products to customers directly from the factory and through distribution centers located throughout the world. Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies and growth, particularly in emerging markets, depends on the proper operation of our distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties (including those involved in shipping product to and from our distribution facilities). Our distribution facilities could be interrupted by information technology problems and disasters such as earthquakes or fires. Any significant failure in our distribution facilities could result in an adverse effect on our business. We maintain business interruption insurance, but it may not adequately protect us from adverse effects caused by significant disruptions in our distribution facilities.

We rely significantly on information technology to operate our business, including our supply chain and retail operations, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

We are heavily dependent on information technology systems and networks, including the Internet and third-party services (“Information Technology Systems”), across our supply chain, including product design, production, forecasting, ordering, manufacturing, transportation, sales and distribution, as well as for processing financial information for external and internal reporting purposes, retail operations and other business activities. Information Technology Systems are critical to many of our operating activities and our business processes and may be negatively impacted by any service interruption or shutdown. For example, our ability to effectively manage and maintain our inventory and to ship products to customers on a timely basis depends significantly on the reliability of these Information Technology Systems. Over a number of years, we have implemented Information Technology Systems in all of the geographical regions in which we operate. Our work to integrate, secure and enhance these systems and related processes in our global operations is ongoing and NIKE will continue to invest in these efforts. The failure of these systems to operate effectively, including as a result of security breaches, viruses, hackers, malware, natural disasters, vendor business interruptions or other causes, or failure to properly maintain, protect, repair or upgrade systems, or problems with transitioning to upgraded or replacement systems could cause delays in product fulfillment and reduced efficiency of our operations, could require significant capital investments to remediate the problem, and may have an adverse effect on our reputation, results of operations and financial condition.

We also use Information Technology Systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. If Information Technology Systems suffer severe damage, disruption or shutdown and our business continuity plans, or those of our vendors, do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, which could result in lost revenues and profits, as well as reputational damage. Furthermore, we depend on Information Technology Systems and personal data collection for digital marketing, digital commerce, consumer engagement and the marketing and use of our digital products and services. We also rely on our ability to engage in electronic communications throughout the world between and among our employees as well as with other third parties, including customers, suppliers, vendors and consumers. Any interruption in Information Technology Systems may impede our ability to engage in the digital space and result in lost revenues, damage to our reputation, and loss of users.

The market for prime real estate is competitive.

Our ability to effectively obtain real estate to open new retail stores and otherwise conduct our operations, both domestically and internationally, depends on the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics and other factors. We also must be able to effectively renew our existing real estate leases. In addition, from time to time, we seek to downsize, consolidate, reposition or close some of our real estate locations, which may require modification of an existing lease. Failure to secure adequate new locations or successfully modify leases for existing locations, or failure to effectively manage the profitability of our existing fleet of retail stores, could have an adverse effect on our operating results and financial condition.

Additionally, the economic environment may make it difficult to determine the fair market rent of real estate properties domestically and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents and to renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet our targets or efficiently manage the profitability of our existing fleet of stores, which could have an adverse effect on our operating results and financial condition.

Extreme weather conditions and natural disasters could negatively impact our operating results and financial condition.

Extreme weather conditions in the areas in which our retail stores, suppliers, customers, distribution centers and vendors are located could adversely affect our operating results and financial condition. Moreover, natural disasters such as earthquakes, hurricanes and tsunamis, whether occurring in the United States or abroad, and their related consequences and effects, including energy shortages and public health issues, could disrupt our operations, the operations of our vendors and other suppliers or result in economic instability that may negatively impact our operating results and financial condition.

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in technology, business infrastructure, new businesses, product offering and manufacturing innovation and expansion of existing businesses, such as our digital commerce operations, which require substantial cash investments and management attention. We believe cost-effective investments are essential to business growth and profitability; however, significant investments are subject to typical risks and uncertainties inherent in developing a new business or expanding an existing business. The failure of any significant investment to provide expected returns or profitability could have a material adverse effect on our financial results and divert management attention from more profitable business operations.

We are subject to litigation and other legal and regulatory proceedings, which could have an adverse effect on our business, financial condition and results of operations.

As a multinational corporation with operations and distribution channels throughout the world, we are subject to extensive laws and regulations in the U.S. and other jurisdictions in which we have operations and distribution channels. We are involved in various types of claims, lawsuits, regulatory proceedings and government investigations relating to our business, our products and the actions of our employees and representatives, including contractual and employment relationships, product liability, antitrust, trademark rights and a variety of other matters. It is not possible to predict with certainty the outcome of any such legal or regulatory proceedings or investigations, and we could in the future incur judgments, fines or penalties, or enter into settlements of lawsuits and claims that could have a material adverse effect on our business, financial condition and results of operations and negatively impact our reputation. The global nature of our business means legal and compliance risks will continue to exist and additional legal proceedings and other contingencies will arise from time to time, which could adversely affect us. In addition, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations, may result in significant unanticipated legal and reputational risks. Any current or future legal or regulatory proceedings could divert management's attention from our operations and result in substantial legal fees.

The success of our business depends, in part, on high-quality employees, including key personnel.

Our success depends in part on the continued service of high-quality employees, including key executive officers and personnel. The loss of the services of key individuals, or any negative perception with respect to these individuals, could harm our business. Our success also depends on our ability to recruit, retain and engage our personnel sufficiently, both to maintain our current business and to execute our strategic initiatives. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel. In addition, shifts in U.S. immigration policy could negatively impact our ability to attract, hire and retain highly skilled employees who are from outside the U.S.

The sale of a large number of shares of common stock by our principal stockholder could depress the market price of our common stock.

As of June 30, 2018, Swoosh, LLC beneficially owned more than 77% of our Class A Common Stock. If, on June 30, 2018, all of these shares were converted into Class B Common Stock, the commensurate ownership percentage of our Class B Common Stock would be approximately 17%. The shares are available for resale, subject to the requirements of the U.S. securities laws and the terms of the limited liability company agreement governing Swoosh, LLC. The sale or prospect of a sale of a substantial number of these shares could have an adverse effect on the market price of our common stock. Swoosh, LLC was formed by Philip H. Knight, our Chairman Emeritus, to hold the majority of his shares of Class A Common Stock. Swoosh, LLC is controlled by Mr. Knight's son and NIKE director, Travis Knight.

Changes in our credit ratings or macroeconomic conditions may affect our liquidity, increasing borrowing costs and limiting our financing options.

Our long-term debt is currently rated Investment Grade by Standard & Poor's and Moody's Investors Service. If our credit ratings are lowered, borrowing costs for future long-term debt or short-term credit facilities may increase and our financing options, including our access to the unsecured credit market, could be limited. We may also be subject to restrictive covenants that would reduce our flexibility to, among other things, incur additional indebtedness, make restricted payments, pledge assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Failure to comply with such covenants could result in a default, and as a result, the commitments of our lenders under our credit agreements may be terminated and the maturity of amounts owed may be accelerated. In addition, macroeconomic conditions, such as increased volatility or disruption in the credit markets, could adversely affect our ability to refinance existing debt.

If our internal controls are ineffective, our operating results could be adversely affected.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, allowance for uncollectible accounts receivable, inventory reserves, contingent payments under endorsement contracts, accounting for property, plant and equipment and definite-lived assets, hedge accounting for derivatives, stock-based compensation, income taxes and other contingencies. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class B Common Stock.

Anti-takeover provisions may impair an acquisition of the Company or reduce the price of our common stock.

There are provisions within our articles of incorporation and Oregon law intended to protect shareholder interests by providing the Board of Directors a means to attempt to deny coercive takeover attempts or to negotiate with a potential acquirer in order to obtain more favorable terms. Such provisions include a control share acquisition statute, a freeze-out statute, two classes of stock that vote separately on certain issues, and the fact that holders of Class A Common Stock elect three-quarters of the Board of Directors rounded down to the next whole number. However, such provisions could discourage, delay or prevent an unsolicited merger, acquisition or other change in control of our company that some shareholders might believe to be in their best interests or in which shareholders might receive a premium for their common stock over the prevailing market price. These provisions could also discourage proxy contests for control of the Company.

We may fail to meet market expectations, which could cause the price of our stock to decline.

Our Class B Common Stock is traded publicly, and at any given time various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as analysts' estimates of our future performance. Analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has been brought against NIKE and other companies following a decline in the market price of their securities. If our stock price is volatile for any reason, we may become involved in this type of litigation in the future. Any litigation could result in reputational damage, substantial costs and a diversion of management's attention and resources needed to successfully run our business.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The following is a summary of principal properties owned or leased by NIKE:

The NIKE World Campus, owned by NIKE and located near Beaverton, Oregon, USA, is an approximately 400-acre site consisting of over 40 buildings which, together with adjacent leased properties, functions as our world headquarters and is occupied by approximately 11,200 employees engaged in management, research, design, development, marketing, finance and other administrative functions serving nearly all of our divisions. We also lease various office facilities in the surrounding metropolitan area. We lease a similar, but smaller, administrative facility in Hilversum, the Netherlands, which serves as the headquarters for the Europe, Middle East & Africa geography and management of certain brand functions for our non-U.S. operations. We also lease an office complex in Shanghai, China, our headquarters for Greater China, occupied by employees focused on implementing our wholesale, NIKE Direct and merchandising strategies in the region, among other functions.

In the United States, NIKE has seven significant distribution centers. Five are located in Memphis, Tennessee, two of which are owned and three of which are leased. Two other distribution centers, one located in Indianapolis, Indiana, and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. NIKE Brand apparel and equipment are also shipped from our Foothill Ranch, California distribution center, which we lease. Smaller leased, and third-party leased and operated, distribution facilities are located in various parts of the United States. NIKE has several distribution facilities outside the United States, some of which are leased and operated by third-party logistics providers. The most significant distribution facilities outside the United States are located in Laakdal, Belgium; Taicang, China; Tomisato, Japan and Incheon, Korea, all of which we own.

Air Manufacturing Innovation manufactures Air-Sole cushioning components at NIKE-owned facilities and one leased facility located near Beaverton, Oregon and in St. Charles, Missouri. Air Manufacturing Innovation also manufactures and sells small amounts of various other plastic products to other manufacturers.

Aside from the principal properties described above, we lease many offices worldwide for sales and administrative purposes. We lease 1,181 retail stores worldwide, which primarily consist of factory stores. See “United States Market” and “International Markets” in Part I of this Report. Our leases expire at various dates through the year 2035.

ITEM 3. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

NIKE's Class B Common Stock is listed on the New York Stock Exchange and trades under the symbol NKE. At July 20, 2018, there were 22,271 holders of record of our Class B Common Stock and 15 holders of record of our Class A Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class A Common Stock is not publicly traded, but each share is convertible upon request of the holder into one share of Class B Common Stock. Refer to Selected Quarterly Financial Data in Part II, Item 6 of this Report for information regarding quarterly high and low sales prices for the Class B Common Stock as reported on the New York Stock Exchange Composite Tape, and for dividends declared on the Class A and Class B Common Stock.

In November 2015, the Board of Directors approved a four-year, $12 billion share repurchase program. As of May 31, 2018, the Company had repurchased 149.4 million shares at an average price of $58.25 per share for a total approximate cost of $8.7 billion under this program. The Company intends to use excess cash, future cash from operations and/or proceeds from debt to fund repurchases.

The following table presents a summary of share repurchases made by NIKE under this program during the quarter ended May 31, 2018:

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)*
March 1 — March 31, 2018	8,602,814	$ 65.94	8,602,814	$ 4,282
April 1 — April 30, 2018	7,823,991	$ 67.08	7,823,991	$ 3,757
May 1 — May 31, 2018	6,625,000	$ 69.63	6,625,000	$ 3,296
	23,051,805	**$ 67.39**	**23,051,805**	

Performance Graph

The following graph demonstrates a five-year comparison of cumulative total returns for NIKE's Class B Common Stock; the Standard & Poor's 500 Stock Index; the Standard & Poor's Apparel, Accessories & Luxury Goods Index; and the Dow Jones U.S. Footwear Index. The graph assumes an investment of $100 on May 31, 2013 in each of our Class B Common Stock and the stocks comprising the Standard & Poor's 500 Stock Index; the Standard & Poor's Apparel, Accessories & Luxury Goods Index; and the Dow Jones U.S. Footwear Index. Each of the indices assumes that all dividends were reinvested on the day of issuance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG NIKE, INC.; S&P 500 INDEX; S&P APPAREL, ACCESSORIES & LUXURY GOODS INDEX; AND THE DOW JONES U.S. FOOTWEAR INDEX

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The Dow Jones U.S. Footwear Index consists of NIKE, Deckers Outdoor Corporation, Skechers U.S.A., Inc., Steven Madden, Ltd. and Wolverine World Wide, Inc. Because NIKE is part of the Dow Jones U.S. Footwear Index, the price and returns of NIKE stock have a substantial effect on this index. The Standard & Poor's Apparel, Accessories & Luxury Goods Index consists of Michael Kors Holdings Limited, Ralph Lauren Corporation, Tapestry, Inc., Under Armour, Inc. and V.F. Corporation, among other companies. The Dow Jones U.S. Footwear Index and the Standard & Poor's Apparel, Accessories & Luxury Goods Index include companies in two major lines of business in which the Company competes. The indices do not encompass all of the Company's competitors, nor all product categories and lines of business in which the Company is engaged.

The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make or endorse any predictions as to future stock performance.

The performance graph above is being furnished solely to accompany this Report pursuant to Item 201(e) of Regulation S-K, is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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ITEM 6. Selected Financial Data

All share and per share amounts are reflective of the two-for-one stock split that began trading at the split-adjusted price on December 24, 2015.

(In millions, except per share data and financial ratios)	Financial History				
	2018	**2017**	**2016**	**2015**	**2014**
Year Ended May 31,					
Revenues	$ 36,397	$ 34,350	$ 32,376	$ 30,601	$ 27,799
Gross profit	15,956	15,312	14,971	14,067	12,446
Gross margin	43.8 %	44.6 %	46.2 %	46.0 %	44.8 %
Net income	1,933	4,240	3,760	3,273	2,693
Earnings per common share:					
Basic	1.19	2.56	2.21	1.90	1.52
Diluted	1.17	2.51	2.16	1.85	1.49
Weighted average common shares outstanding	1,623.8	1,657.8	1,697.9	1,723.5	1,766.7
Diluted weighted average common shares outstanding	1,659.1	1,692.0	1,742.5	1,768.8	1,811.6
Cash dividends declared per common share	0.78	0.70	0.62	0.54	0.47
Cash flow from operations(1)	4,955	3,846	3,399	4,906	3,158
Price range of common stock:					
High	73.49	60.33	68.19	52.75	40.13
Low	50.35	49.01	47.25	36.57	29.56
At May 31,					
Cash and equivalents	$ 4,249	$ 3,808	$ 3,138	$ 3,852	$ 2,220
Short-term investments	996	2,371	2,319	2,072	2,922
Inventories	5,261	5,055	4,838	4,337	3,947
Working capital	9,094	10,587	9,667	9,225	8,319
Total assets	22,536	23,259	21,379	21,590	18,579
Long-term debt	3,468	3,471	1,993	1,072	1,191
Capital lease obligations	75	27	15	5	74
Redeemable preferred stock	0.3	0.3	0.3	0.3	0.3
Shareholders' equity	9,812	12,407	12,258	12,707	10,824
Year-end stock price	71.80	52.99	55.22	50.84	38.46
Market capitalization	114,983	87,084	92,867	87,044	66,921
Financial Ratios:					
Return on equity(2)	17.4 %	34.4 %	30.1 %	27.8 %	24.6 %
Return on assets(2)	8.4 %	19.0 %	17.5 %	16.3 %	14.9 %
Inventory turns	4.0	3.8	3.8	4.0	4.1
Current ratio at May 31	2.5	2.9	2.8	2.5	2.7
Price/Earnings ratio at May 31(2)	61.4	21.1	25.6	27.5	25.9

(1) Prior year amounts have been updated to reflect the adoption of Accounting Standards Update No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. As a result of adoption, the Company reclassified cash inflows of $177 million, $281 million, $218 million and $132 million for the years ended May 31, 2017, 2016, 2015 and 2014, respectively, related to excess tax benefits from share-based payment awards, from Cash used by financing activities to Cash provided by operations. Additionally, the Company reclassified cash outflows of $29 million, $22 million, $8 million and $13 million for the years ended May 31, 2017, 2016, 2015 and 2014, respectively, related to tax payments for the net settlement of share-based payment awards, from Cash provided by operations to Cash used by financing activities within the Consolidated Statements of Cash Flows. Refer to Note 1 — Summary of Significant Accounting Policies for additional information.

(2)

Certain fiscal 2018 financial ratios reflect the impact of the Tax Cuts and Jobs Act. Refer to Note 9 — Income Taxes for additional information.

Selected Quarterly Financial Data

(Unaudited) *(In millions, except per share data)*	**1st Quarter**		**2nd Quarter**		**3rd Quarter**		**4th Quarter**	
	2018	**2017**	**2018**	**2017**	**2018**[(1)]	**2017**	**2018**	**2017**
Revenues	$ 9,070	$ 9,061	$ 8,554	$ 8,180	$ 8,984	$ 8,432	$ 9,789	$ 8,677
Gross profit	3,962	4,123	3,678	3,616	3,938	3,750	4,378	3,823
Gross margin	43.7 %	45.5 %	43.0 %	44.2 %	43.8 %	44.5 %	44.7 %	44.1 %
Net income (loss)	950	1,249	767	842	(921)	1,141	1,137	1,008
Earnings (loss) per common share:								
Basic	0.58	0.75	0.47	0.51	(0.57)	0.69	0.71	0.61
Diluted	0.57	0.73	0.46	0.50	(0.57)	0.68	0.69	0.60
Weighted average common shares outstanding	1,639.1	1,672.0	1,627.0	1,659.1	1,623.5	1,653.1	1,605.7	1,646.9
Diluted weighted average common shares outstanding	1,676.9	1,708.9	1,660.9	1,693.2	1,623.5	1,686.3	1,641.2	1,678.6
Cash dividends declared per common share	0.18	0.16	0.20	0.18	0.20	0.18	0.20	0.18
Price range of common stock:								
High	60.53	60.33	61.21	59.18	70.25	58.42	73.49	59.00
Low	50.79	51.48	50.35	49.01	59.24	50.06	63.21	50.81

(1) The third quarter of fiscal 2018 reflects the impact from the enactment of the Tax Cuts and Jobs Act. Refer to Note 9 — Income Taxes for additional information.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

NIKE designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services worldwide. We are the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE-owned retail stores and through digital platforms (which we refer to collectively as our "NIKE Direct" operations), to retail accounts and a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Our goal is to deliver value to our shareholders by building a profitable global portfolio of branded footwear, apparel, equipment and accessories businesses. Our strategy is to achieve long-term revenue growth by creating innovative, "must have" products, building deep personal consumer connections with our brands and delivering compelling consumer experiences through digital platforms and at retail.

In June 2017, we announced the Consumer Direct Offense, a new company alignment designed to allow NIKE to better serve the consumer personally, at scale. Leveraging the power of digital, NIKE plans to drive growth — by accelerating innovation and product creation, moving even closer to the consumer through key cities, and deepening one-to-one connections. As a result of this organizational realignment, beginning in fiscal 2018, the Company's reportable operating segments for the NIKE Brand are: North America; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA).

Through the Consumer Direct Offense, we are focusing on our Triple Double strategy, with the objective of doubling the impact of innovation, increasing our speed to market and growing our direct connections with consumers. As a result of the execution of this strategy, our long-term financial goals through fiscal 2023, on average, per year, are as follows:

- High single-digit revenue growth;
- Gross margin expansion of as much as 50 basis points;
- Slight selling and administrative expense leverage;
- Mid-teens earnings per share growth; and
- Low-thirties percentage rate of return on invested capital.

Over the past ten years, we have achieved strong growth in many of these metrics. During this time, revenues for NIKE, Inc. have grown 7% on an annual compounded basis, annual gross margin has ranged from 43.5% to 46.4%, diluted earnings per common share has grown steadily and our return on invested capital has been as high as 34.7%.

Our fiscal 2018 results demonstrated the power of the NIKE, Inc. portfolio to generate revenue growth, while investing in capabilities in support of our Triple Double strategy to fuel our next phase of long-term growth and profitability. We achieved record revenues for fiscal 2018, growing 6% to $36.4 billion. The NIKE Brand, which represents over 90% of NIKE, Inc. *Revenues*, delivered 7% revenue growth. On a currency-neutral basis, NIKE Brand revenues grew 5%, driven by strong revenue growth across all international geographies and NIKE Direct, as well as growth in footwear, apparel and most key categories. Revenues for Converse decreased 8% and 11% on a reported and currency-neutral basis, respectively, primarily driven by lower revenues in North America.

Income before income taxes decreased 11% for fiscal 2018, in part reflecting the negative impact of weakening foreign currency exchange rates. Revenue growth was more than offset by higher selling and administrative expense, gross margin contraction, and a shift to other expense, net from other income, net for fiscal 2017. NIKE, Inc. gross margin decreased 80 basis points primarily due to foreign currency exchange rate headwinds. Selling and administrative expense was higher as a percent of revenues, reflecting investments in digital capabilities, consumer experiences and product and brand marketing to drive long-term growth under the Consumer Direct Offense.

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

While foreign currency markets remain volatile, we continue to see opportunities to drive future growth and profitability, and remain committed to effectively managing our business to achieve our financial goals over the long-term by executing against the operational strategies outlined above.

Use of Non-GAAP Financial Measures

Throughout this Annual Report on Form 10-K, we discuss non-GAAP financial measures, including references to wholesale equivalent revenues and currency-neutral revenues, which should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). References to wholesale equivalent revenues are intended to provide context as to the total size of our NIKE Brand market footprint if we had no NIKE Direct operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our NIKE Direct operations, which are charged at prices comparable to those charged to external wholesale customers. Additionally, currency-neutral revenues are calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends excluding the impact of translation arising from foreign currency exchange rate fluctuations.

Management uses these non-GAAP financial measures when evaluating the Company's performance, including when making financial and operating decisions. Additionally, management believes these non-GAAP financial measures provide investors with additional financial information that should be considered when assessing our underlying business performance and trends. However, references to wholesale equivalent revenues and currency-neutral revenues should not be considered in isolation or as a substitute for other financial measures calculated and presented in accordance with U.S. GAAP and may not be comparable to similarly titled non-GAAP measures used by other companies.

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Results of Operations

(Dollars in millions, except per share data)	Fiscal 2018	Fiscal 2017	% Change	Fiscal 2016	% Change
Revenues	$ 36,397	$ 34,350	6 %	$ 32,376	6 %
Cost of sales	20,441	19,038	7 %	17,405	9 %
Gross profit	15,956	15,312	4 %	14,971	2 %
Gross margin	*43.8 %*	*44.6 %*		*46.2 %*	
Demand creation expense	3,577	3,341	7 %	3,278	2 %
Operating overhead expense	7,934	7,222	10 %	7,191	0 %
Total selling and administrative expense	11,511	10,563	9 %	10,469	1 %
% of revenues	*31.6 %*	*30.8 %*		*32.3 %*	
Interest expense (income), net	54	59	—	19	—
Other expense (income), net	66	(196)	—	(140)	—
Income before income taxes	4,325	4,886	-11 %	4,623	6 %
Income tax expense	2,392	646	270 %	863	-25 %
Effective tax rate	*55.3 %*	*13.2 %*		*18.7 %*	
NET INCOME	**$ 1,933**	**$ 4,240**	**-54 %**	**$ 3,760**	**13 %**
Diluted earnings per common share	$ 1.17	$ 2.51	-53 %	$ 2.16	16 %

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Consolidated Operating Results

Revenues

(Dollars in millions)	Fiscal 2018	Fiscal 2017[1]	% Change	% Change Excluding Currency Changes[2]	Fiscal 2016[1]	% Change	% Change Excluding Currency Changes[2]
NIKE, Inc. Revenues:							
NIKE Brand Revenues by:							
Footwear	$ 22,268	$ 21,081	6 %	4 %	$ 19,871	6 %	8 %
Apparel	10,733	9,654	11 %	9 %	9,067	6 %	9 %
Equipment	1,396	1,425	-2 %	-4 %	1,496	-5 %	-3 %
Global Brand Divisions[3]	88	73	21 %	12 %	73	0 %	2 %
Total NIKE Brand Revenues	**34,485**	**32,233**	**7 %**	**5 %**	**30,507**	**6 %**	**8 %**
Converse	1,886	2,042	-8 %	-11 %	1,955	4 %	6 %
Corporate[4]	26	75	—	—	(86)	—	—
TOTAL NIKE, INC. REVENUES	**$ 36,397**	**$ 34,350**	**6 %**	**4 %**	**$ 32,376**	**6 %**	**8 %**
Supplemental NIKE Brand Revenues Details:							
NIKE Brand Revenues by:							
Sales to Wholesale Customers	$ 23,969	$ 23,078	4 %	2 %	$ 22,577	2 %	5 %
Sales through NIKE Direct	10,428	9,082	15 %	12 %	7,857	16 %	18 %
Global Brand Divisions[3]	88	73	21 %	12 %	73	0 %	2 %
TOTAL NIKE BRAND REVENUES	**$ 34,485**	**$ 32,233**	**7 %**	**5 %**	**$ 30,507**	**6 %**	**8 %**
NIKE Brand Revenues on a Wholesale Equivalent Basis:[5]							
Sales to Wholesale Customers	$ 23,969	$ 23,078	4 %	2 %	$ 22,577	2 %	5 %
Sales from our Wholesale Operations to NIKE Direct Operations	6,332	5,616	13 %	10 %	4,672	20 %	22 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 30,301**	**$ 28,694**	**6 %**	**4 %**	**$ 27,249**	**5 %**	**8 %**
NIKE Brand Wholesale Equivalent Revenues by:[5]							
Men's	$ 17,114	$ 16,041	7 %	5 %	$ 15,410	4 %	6 %
Women's	6,915	6,644	4 %	2 %	6,296	6 %	8 %
Young Athletes'	4,906	4,838	1 %	-1 %	4,560	6 %	8 %
Others[6]	1,366	1,171	17 %	13 %	983	19 %	21 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 30,301**	**$ 28,694**	**6 %**	**4 %**	**$ 27,249**	**5 %**	**8 %**
NIKE Brand Wholesale Equivalent Revenues by:[5]							
Running	$ 5,198	$ 4,860	7 %	5 %	$ 4,401	10 %	13 %
NIKE Basketball	1,494	1,292	16 %	14 %	1,378	-6 %	-5 %
Jordan Brand	2,856	3,098	-8 %	-9 %	2,753	13 %	13 %
Football (Soccer)	2,146	1,984	8 %	5 %	2,143	-7 %	-4 %
Training	3,126	3,080	1 %	0 %	3,150	-2 %	-1 %
Sportswear	10,018	8,988	11 %	8 %	8,129	11 %	14 %
Others[7]	5,463	5,392	1 %	0 %	5,295	2 %	3 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	**$ 30,301**	**$ 28,694**	**6 %**	**4 %**	**$ 27,249**	**5 %**	**8 %**

(1) *Certain prior year amounts have been reclassified to conform to fiscal 2018 presentation. These changes had no impact on previously reported consolidated results of operations or shareholders' equity.*

(2) *The percent change has been calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends by excluding the impact of translation arising from foreign currency exchange rate fluctuations, which is considered a non-GAAP financial measure.*

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

(4) *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.*

(5) *References to NIKE Brand wholesale equivalent revenues, which are considered non-GAAP financial measures, are intended to provide context as to the total size of our NIKE Brand market footprint if we had no NIKE Direct operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our NIKE Direct operations, which are charged at prices comparable to those charged to external wholesale customers.*

(6) *Others include all unisex products, equipment and other products not allocated to Men's, Women's and Young Athletes', as well as certain adjustments that are not allocated to products designated by gender or age.*

(7) *Others include all other categories and certain adjustments that are not allocated at the category level.*

Fiscal 2018 Compared to Fiscal 2017

On a currency-neutral basis, NIKE, Inc. *Revenues* grew 4% for fiscal 2018, driven by growth in the NIKE Brand. All international NIKE Brand geographies delivered higher revenues for fiscal 2018 as our Consumer Direct Offense delivered innovative products, deep brand connections and compelling retail experiences to consumers through digital platforms and at NIKE-owned and retail partner stores, driving demand for NIKE Brand products. Revenue growth was broad-based, as Greater China, EMEA and APLA each contributed approximately 2 percentage points of the increase in NIKE, Inc. *Revenues*. For fiscal 2018, lower revenues from North America and Converse each reduced NIKE, Inc. *Revenues* by approximately 1 percentage point.

On a currency-neutral basis, NIKE Brand footwear and apparel revenues increased 4% and 9%, respectively, for fiscal 2018, while NIKE Brand equipment revenues decreased 4%. On a category basis, the increase in NIKE Brand footwear revenues was due to strong growth in Sportswear and Running, which was partially offset by lower revenues in several other categories, most notably the Jordan Brand. Footwear unit sales for fiscal 2018 increased 2% and higher average selling price (ASP) per pair contributed approximately 2 percentage points of footwear revenue growth, primarily due to the favorable impact of growth in our NIKE Direct business.

The currency-neutral increase in NIKE Brand apparel revenues for fiscal 2018 was fueled by growth in nearly all key categories, most notably Sportswear, NIKE Basketball and Football (Soccer). Unit sales of apparel increased 4% and higher ASP per unit contributed approximately 5 percentage points of apparel revenue growth, primarily due to higher ASPs from full-price, off-price and NIKE Direct sales.

For fiscal 2018, NIKE Direct revenues represented approximately 30% of our total NIKE Brand revenues compared to 28% for fiscal 2017. On a currency-neutral basis, NIKE Direct revenues increased 12% for fiscal 2018, driven by strong digital commerce sales growth of 25%, the addition of new stores and 4% comparable store sales growth. 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. On a reported basis, digital commerce sales, which are not included in comparable store sales, were $2.8 billion for fiscal 2018 compared to $2.2 billion for fiscal 2017, and represented approximately 27% of our total NIKE Brand NIKE Direct revenues for fiscal 2018 compared to 24% for fiscal 2017.

On a wholesale equivalent and currency-neutral basis, fiscal 2018 NIKE Brand Men's revenues increased 5%, as growth in Sportswear, Running and NIKE Basketball more than offset lower Football (Soccer) and Jordan Brand revenues. Women's revenues increased 2%, led by growth in Sportswear, partially offset by a decline in Training. Revenues for our Young Athletes' business decreased 1%, as growth in Football (Soccer), was more than offset by lower revenues in the Jordan Brand.

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, NIKE, Inc. *Revenues* grew 8% for fiscal 2017, driven by higher revenues for all NIKE Brand geographies and Converse. Revenue growth was broad-based, as EMEA, Greater China, APLA and North America each contributed approximately 2 percentage points of the increase in NIKE, Inc. *Revenues*.

On a currency-neutral basis, NIKE Brand footwear and apparel revenues increased 8% and 9%, respectively, for fiscal 2017, while NIKE Brand equipment revenues decreased 3%. On a category basis, the increase in NIKE Brand footwear revenues was driven by strong growth in Sportswear, Running and the Jordan Brand. Footwear unit sales for fiscal 2017 increased 7%, with higher ASP per pair contributing approximately 1 percentage point of footwear revenue growth, primarily driven by higher full-price and off-price ASPs, partially offset by the impact of higher off-price sales.

The currency-neutral increase in NIKE Brand apparel revenues for fiscal 2017 was fueled by growth in all key categories, led by Sportswear, Running and Training. Unit sales of apparel increased 6%, while higher ASP per unit contributed approximately 3 percentage points of apparel revenue growth, primarily due to higher full-price ASP and, to a lesser extent, growth in our higher-priced NIKE Direct business.

For fiscal 2017, NIKE Direct revenues represented approximately 28% of our total NIKE Brand revenues compared to 26% for fiscal 2016. On a currency-neutral basis, NIKE Direct revenues increased 18% for fiscal 2017, driven by strong digital commerce sales growth of 30%, the addition of new stores and 7% comparable store sales growth. On a reported basis, digital commerce sales, which are not included in comparable store sales, were $2.2 billion for fiscal 2017 compared to $1.7 billion for fiscal 2016 and represented approximately 24% of our total NIKE Direct revenues for fiscal 2017 compared to 22% for fiscal 2016.

On a wholesale equivalent and currency-neutral basis, fiscal 2017 NIKE Brand Men’s revenues increased 6%, driven by significant growth in Sportswear, Running and the Jordan Brand, while Women’s revenues increased 8%, led by growth in Sportswear and Running. Revenues for our Young Athletes’ business increased 8%, with growth across multiple categories, most notably the Jordan Brand.

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Gross Margin

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	Fiscal 2016	% Change
Gross profit	$ 15,956	$ 15,312	4 %	$ 14,971	2 %
Gross margin	43.8 %	44.6 %	(80 bps)	46.2 %	(160 bps)

Fiscal 2018 Compared to Fiscal 2017

For fiscal 2018, our consolidated gross margin was 80 basis points lower than fiscal 2017, primarily reflecting the following factors:

- Unfavorable changes in net foreign currency exchange rates, including hedges (decreasing gross margin approximately 90 basis points);
- Lower NIKE Direct margin (decreasing gross margin approximately 10 basis points) reflecting higher mix of off-price sales in the first half of fiscal 2018, which was partially offset by margin expansion in the second half of fiscal 2018;
- NIKE Brand full-price ASP, net of discounts, on a wholesale equivalent basis, which was flat for fiscal 2018 as higher discounts in the first half of fiscal 2018 were offset by higher full-price ASP in the second half of the year; and
- NIKE Brand product costs, on a wholesale equivalent basis, which were flat.

Fiscal 2017 Compared to Fiscal 2016

For fiscal 2017, our consolidated gross margin was 160 basis points lower than fiscal 2016, primarily driven by the following factors:

- Higher NIKE Brand full-price ASP, net of discounts, on a wholesale equivalent basis (increasing gross margin approximately 70 basis points) aligned with our strategy to deliver innovative, premium products to the consumer;
- Higher NIKE Brand product costs (decreasing gross margin approximately 100 basis points) as an increase in the mix of higher cost products and labor input cost inflation more than offset lower material input costs;
- Unfavorable changes in net foreign currency exchange rates, including hedges (decreasing gross margin approximately 90 basis points); and
- Lower NIKE Direct margins (decreasing gross margin approximately 20 basis points) reflecting the impact of higher off-price sales.

Total Selling and Administrative Expense

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	Fiscal 2016	% Change
Demand creation expense[(1)]	$ 3,577	$ 3,341	7 %	$ 3,278	2 %
Operating overhead expense	7,934	7,222	10 %	7,191	0 %
Total selling and administrative expense	$ 11,511	$ 10,563	9 %	$ 10,469	1 %
% of revenues	31.6 %	30.8 %	80 bps	32.3 %	(150 bps)

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

Fiscal 2018 Compared to Fiscal 2017

Demand creation expense increased 7% for fiscal 2018 compared to fiscal 2017, driven by higher sports marketing costs. Changes in foreign currency exchange rates increased *Demand creation expense* by approximately 3 percentage points for fiscal 2018.

Operating overhead expense increased 10% compared to fiscal 2017, due to higher administrative costs, continued investments in our growing NIKE Direct business and one-time wage-related costs associated with the Consumer Direct Offense organizational realignment. Changes in foreign currency exchange rates increased *Operating overhead expense* by approximately 2 percentage points for fiscal 2018.

Fiscal 2017 Compared to Fiscal 2016

Demand creation expense increased 2% for fiscal 2017 compared to fiscal 2016, driven by higher sports marketing costs, as well as higher marketing and advertising costs, primarily to support key sporting events including the Rio Olympics and European Football Championship. These increases were partially offset by lower retail brand presentation costs. Changes in foreign currency exchange rates reduced *Demand creation expense* by approximately 1 percentage point.

Operating overhead expense was flat compared to fiscal 2016 as continued investments in our growing NIKE Direct business were offset by administrative cost efficiencies and lower variable compensation. Changes in foreign currency exchange rates reduced *Operating overhead expense* by approximately 1 percentage point for fiscal 2017.

Other Expense (Income), Net

(In millions)	Fiscal 2018	Fiscal 2017	Fiscal 2016
Other expense (income), net	$ 66	$ (196)	$ (140)

Other expense (income), 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 outside the normal course of business.

Fiscal 2018 Compared to Fiscal 2017

Other expense (income), net changed from $196 million of other income, net for fiscal 2017 to $66 million of other expense, net for fiscal 2018, primarily due to a $287 million net detrimental change in foreign currency conversion gains and losses, including hedges.

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 expense (income), net* had an unfavorable impact on our *Income before income taxes* of $110 million for fiscal 2018.

Fiscal 2017 Compared to Fiscal 2016

Other expense (income), net increased from $140 million of other income, net for fiscal 2016 to $196 million of other income, net for fiscal 2017, primarily due to a $56 million net beneficial change in foreign currency conversion gains and losses.

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 expense (income), net* had an unfavorable impact on our *Income before income taxes* of $59 million for fiscal 2017.

Income Taxes

	Fiscal 2018	Fiscal 2017	% Change	Fiscal 2016	% Change
Effective tax rate	55.3 %	13.2 %	4,210 bps	18.7 %	(550) bps

Fiscal 2018 Compared to Fiscal 2017

Our effective tax rate was 55.3% for fiscal 2018, reflecting the impact of the Tax Cuts and Jobs Act (the “Tax Act”). The impact of the Tax Act primarily reflects provisional expense of $1,875 million for the one-time transition tax on the deemed repatriation of undistributed foreign earnings and $158 million resulting from the remeasurement of deferred tax assets and liabilities. The remaining provisions of the Tax Act, which were a net benefit to the effective tax rate, did not have a material impact on our Consolidated Financial Statements during fiscal 2018. The increase in the effective tax rate resulting from the Tax Act was partially offset by the tax benefit from stock-based compensation in the current period as a result of the adoption of Accounting Standards Update (ASU) 2016-09 in the first quarter of fiscal 2018.

Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for additional information on the impact of ASU 2016-09, and Note 9 — Income Taxes for additional information on the impact of the Tax Act.

Fiscal 2017 Compared to Fiscal 2016

The 550 basis point decrease in our effective tax rate for the fiscal year was primarily due to a one-time benefit in the first quarter of the fiscal year related to the resolution with the IRS of a foreign tax credit matter and a decrease in foreign earnings taxed in the United States.

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; Europe, Middle East & Africa; Greater China; and Asia Pacific & Latin America, and include results for the NIKE, Jordan and Hurley brands.

The Company’s NIKE Direct 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 and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the 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.

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The breakdown of revenues is as follows:

(Dollars in millions)	Fiscal 2018	Fiscal 2017[1]	% Change	% Change Excluding Currency Changes[2]	Fiscal 2016[1]	% Change	% Change Excluding Currency Changes[2]
North America	$ 14,855	$ 15,216	-2 %	-2 %	$ 14,764	3 %	3 %
Europe, Middle East & Africa	9,242	7,970	16 %	9 %	7,568	5 %	10 %
Greater China	5,134	4,237	21 %	18 %	3,785	12 %	17 %
Asia Pacific & Latin America	5,166	4,737	9 %	10 %	4,317	10 %	13 %
Global Brand Divisions[3]	88	73	21 %	12 %	73	0 %	2 %
TOTAL NIKE BRAND	**34,485**	**32,233**	**7 %**	**5 %**	**30,507**	**6 %**	**8 %**
Converse	1,886	2,042	-8 %	-11 %	1,955	4 %	6 %
Corporate[4]	26	75	—	—	(86)	—	—
TOTAL NIKE, INC. REVENUES	**$ 36,397**	**$ 34,350**	**6 %**	**4 %**	**$ 32,376**	**6 %**	**8 %**

(1) *Certain prior year amounts have been reclassified to conform to fiscal 2018 presentation. This includes reclassified operating segment data to reflect the changes in the Company's operating structure, which became effective June 1, 2017. These changes had no impact on previously reported consolidated results of operations or shareholders' equity.*

(2) *The percent change has been calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends excluding the impact of translation arising from foreign currency exchange rate fluctuations, which is considered a non-GAAP financial measure.*

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

(4) *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 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 Consolidated Statements of Income. As discussed in Note 17 — Operating Segments and Related Information in the accompanying Notes to the 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)	Fiscal 2018	Fiscal 2017[1]	% Change	Fiscal 2016[1]	% Change
North America	$ 3,600	$ 3,875	-7 %	$ 3,763	3 %
Europe, Middle East & Africa	1,587	1,507	5 %	1,787	-16 %
Greater China	1,807	1,507	20 %	1,372	10 %
Asia Pacific & Latin America	1,189	980	21 %	1,002	-2 %
Global Brand Divisions	(2,658)	(2,677)	1 %	(2,596)	-3 %
TOTAL NIKE BRAND	**5,525**	**5,192**	**6 %**	**5,328**	**-3 %**
Converse	310	477	-35 %	487	-2 %
Corporate	(1,456)	(724)	-101 %	(1,173)	38 %
TOTAL NIKE, INC. EARNINGS BEFORE INTEREST AND TAXES	**4,379**	**4,945**	**-11 %**	**4,642**	**7 %**
Interest expense (income), net	54	59	—	19	—
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 4,325**	**$ 4,886**	**-11 %**	**$ 4,623**	**6 %**

(1) *Certain prior year amounts have been reclassified to conform to fiscal 2018 presentation. This includes reclassified operating segment data to reflect the changes in the Company's operating structure, which became effective June 1, 2017. These changes had no impact on previously reported consolidated results of operations or shareholders' equity.*

North America

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	% Change Excluding Currency Changes	Fiscal 2016	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$ 9,322	$ 9,684	-4 %	-4 %	$ 9,299	4 %	4 %
Apparel	4,938	4,886	1 %	1 %	4,746	3 %	3 %
Equipment	595	646	-8 %	-8 %	719	-10 %	-10 %
TOTAL REVENUES	**$ 14,855**	**$ 15,216**	**-2 %**	**-2 %**	**$ 14,764**	**3 %**	**3 %**
Revenues by:							
Sales to Wholesale Customers	$ 10,159	$ 10,756	-6 %	-6 %	$ 10,674	1 %	1 %
Sales through NIKE Direct	4,696	4,460	5 %	5 %	4,090	9 %	9 %
TOTAL REVENUES	**$ 14,855**	**$ 15,216**	**-2 %**	**-2 %**	**$ 14,764**	**3 %**	**3 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 3,600**	**$ 3,875**	**-7 %**		**$ 3,763**	**3 %**	

In the current marketplace environment, we believe there has been a meaningful shift in the way consumers shop for product and make purchasing decisions. Consumers are demanding a constant flow of fresh and innovative product, and have an expectation for superior service and real-time delivery, all fueled by the shift toward digital. Specifically, in North America we anticipate continued evolution within the retail landscape, driven by shifting consumer traffic patterns across digital and physical channels. The evolution of the North America marketplace has resulted in third-party retail store closures; however, we are currently seeing stabilization and momentum building in our business, fueled by innovative product and NIKE Brand consumer experiences, leveraging digital.

Fiscal 2018 Compared to Fiscal 2017

North America revenues decreased 2%, as growth in our Sportswear and NIKE Basketball categories was more than offset by declines in all other categories, most notably the Jordan Brand and Running. NIKE Direct revenues increased 5% for fiscal 2018 due to digital commerce sales growth and the addition of new stores.

Footwear revenues declined 4% for fiscal 2018, as lower revenues in nearly all categories, most notably the Jordan Brand, more than offset higher revenues in Sportswear. Unit sales of footwear decreased 5%, while ASP per pair contributed approximately 1 percentage point of footwear growth, driven by the favorable impact of growth in our NIKE Direct business.

Apparel revenue growth of 1% for fiscal 2018 was attributable to higher revenues in our Sportswear and NIKE Basketball categories, which was only partially offset by declines in nearly all other categories. Unit sales of apparel decreased 4%, while higher ASP per unit contributed approximately 5 percentage points of apparel revenue growth, primarily due to the favorable impact of growth in our NIKE Direct business and, to a lesser extent, higher full-price ASP and favorable changes in off-price sales.

EBIT declined 7% for fiscal 2018, primarily reflecting lower revenues and higher selling and administrative expense. Gross margin declined 10 basis points as lower full-price ASP more than offset the favorable impact of growth in our NIKE Direct business. Selling and administrative expense grew due to higher operating overhead expense resulting from continued investments in our growing NIKE Direct business. Demand creation expense also increased, as higher sports marketing costs were only partially offset by lower retail brand presentation costs.

Fiscal 2017 Compared to Fiscal 2016

North America revenues increased 3%, driven by growth in our Sportswear and Jordan Brand categories, partially offset by declines in other categories, including NIKE Basketball. NIKE Direct revenues increased 9% for fiscal 2017 due to digital commerce sales growth, the addition of new stores and comparable store sales growth of 3%.

Footwear revenue growth for fiscal 2017 was attributable to higher revenues in our Sportswear and Jordan Brand categories, partially offset by declines in other categories. Unit sales of footwear increased 4%, while ASP per pair was flat as higher off-price ASP was offset by unfavorable off-price mix.

The increase in apparel revenues for fiscal 2017 was due to growth concentrated in Sportswear, partially offset by declines in other categories. Unit sales of apparel grew 2% and higher ASP per unit contributed approximately 1 percentage point of apparel revenue growth, primarily due to higher full-price ASP.

EBIT grew 3% for fiscal 2017 as revenue growth and gross margin expansion were partially offset by higher selling and administrative expense as a percent of revenues. Gross margin increased 10 basis points as higher full-price ASP and favorable off-price margin more than offset higher product costs and increased off-price mix as a result of clearing excess inventories through off-price channels, including through our NIKE Direct business. Selling and administrative expense grew due to higher operating overhead as continued investments in our growing NIKE Direct business were partially offset by lower bad debt expense. Demand creation was flat as higher sports marketing and retail brand presentation costs offset lower marketing and advertising costs.

Europe, Middle East & Africa

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	% Change Excluding Currency Changes	Fiscal 2016	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$ 5,875	$ 5,192	13 %	6 %	$ 5,043	3 %	8 %
Apparel	2,940	2,395	23 %	16 %	2,149	11 %	17 %
Equipment	427	383	11 %	6 %	376	2 %	7 %
TOTAL REVENUES	**$ 9,242**	**$ 7,970**	**16 %**	**9 %**	**$ 7,568**	**5 %**	**10 %**
Revenues by:							
Sales to Wholesale Customers	$ 6,765	$ 5,917	14 %	8 %	$ 5,869	1 %	5 %
Sales through NIKE Direct	2,477	2,053	21 %	13 %	1,699	21 %	27 %
TOTAL REVENUES	**$ 9,242**	**$ 7,970**	**16 %**	**9 %**	**$ 7,568**	**5 %**	**10 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,587**	**$ 1,507**	**5 %**		**$ 1,787**	**-16 %**	

Fiscal 2018 Compared to Fiscal 2017

On a currency-neutral basis, EMEA revenues for fiscal 2018 increased 9%, driven by higher revenues in every territory, most notably our UK & Ireland territory, which grew 21%. Revenues increased in nearly all key categories, led by Sportswear and Football (Soccer). NIKE Direct revenues grew 13% for fiscal 2018 due to strong digital commerce sales growth, comparable store sales growth of 6% and the addition of new stores.

The 6% increase in currency-neutral footwear revenues for fiscal 2018 was due to growth in most key categories, led by Sportswear. For fiscal 2018, unit sales of footwear increased 6% while ASP per pair was flat, as higher off-price ASP was offset by lower full-price ASP.

Currency-neutral apparel revenues grew 16% for fiscal 2018, driven by higher revenues in all key categories, most notably Sportswear and Football (Soccer). Unit sales of apparel increased 12% and higher ASP per unit contributed approximately 4 percentage points of apparel revenue growth. The increase in ASP per unit was primarily attributable to higher full-price ASP.

Reported EBIT increased 5% for fiscal 2018 due to revenue growth and slight selling and administrative expense leverage, which was partially offset by gross margin contraction. Gross margin declined 180 basis points as lower product costs were more than offset by unfavorable standard foreign currency exchange rates, lower full-price ASP due to product mix, and lower NIKE Direct margin. Selling and administrative expense increased due to higher demand creation expense driven by sports marketing and advertising costs. Operating overhead also increased primarily due to continued investments in our growing NIKE Direct business and, to a lesser extent, higher administrative costs.

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, EMEA revenues for fiscal 2017 increased 10%. Revenue growth was broad-based across all territories, led by the UK & Ireland, which grew 11%. On a category basis, revenues increased for nearly all key categories, led by Sportswear and, to a lesser extent, Running and the Jordan Brand. NIKE Direct revenues grew 27% for fiscal 2017 due to comparable store sales growth of 15%, strong digital commerce sales growth and the addition of new stores.

The currency-neutral increase in footwear revenues was led by Sportswear, Running and the Jordan Brand, partially offset by declines in Football (Soccer) and Training. For fiscal 2017, unit sales of footwear increased 5% and higher ASP per pair contributed approximately 3 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to the favorable impact of growth in our NIKE Direct business.

Currency-neutral apparel revenue growth was driven by higher revenues in all key categories, most notably Sportswear and, to a lesser extent, Training and Football (Soccer). Unit sales of apparel for fiscal 2017 increased 12%, while higher ASP per unit contributed approximately 5 percentage points of apparel revenue growth. The increase in ASP per unit was primarily attributable to the favorable impact of growth in our NIKE Direct business and higher full-price ASP.

Reported EBIT decreased 16% for fiscal 2017, in part reflecting the negative impact of weakening foreign currency exchange rates. Higher revenues and selling and administrative expense leverage were more than offset by significant gross margin contraction. Gross margin declined 530 basis points primarily driven by the effects of significant unfavorable standard foreign currency exchange rates. Selling and administrative expense increased due to higher demand creation expense, as increased sports marketing and advertising expenses more than offset lower marketing costs. Operating overhead also increased due to continued investments in our growing NIKE Direct business, partially offset by administrative cost efficiencies and lower variable compensation costs.

Greater China

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	% Change Excluding Currency Changes	Fiscal 2016	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$ 3,496	$ 2,920	20 %	16 %	$ 2,599	12 %	18 %
Apparel	1,508	1,188	27 %	23 %	1,055	13 %	18 %
Equipment	130	129	1 %	-1 %	131	-2 %	3 %
TOTAL REVENUES	**$ 5,134**	**$ 4,237**	**21 %**	**18 %**	**$ 3,785**	**12 %**	**17 %**
Revenues by:							
Sales to Wholesale Customers	$ 3,216	$ 2,774	16 %	13 %	$ 2,623	6 %	11 %
Sales through NIKE Direct	1,918	1,463	31 %	27 %	1,162	26 %	32 %
TOTAL REVENUES	**$ 5,134**	**$ 4,237**	**21 %**	**18 %**	**$ 3,785**	**12 %**	**17 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,807**	**$ 1,507**	**20 %**		**$ 1,372**	**10 %**	

Fiscal 2018 Compared to Fiscal 2017

On a currency-neutral basis, Greater China revenues for fiscal 2018 increased 18%, driven by higher revenues in all key categories, led by Running, Sportswear and the Jordan Brand. NIKE Direct revenues increased 27%, driven by strong digital commerce sales growth, the addition of new stores and comparable store sales growth of 10%.

Currency-neutral footwear revenues increased 16% for fiscal 2018, driven by growth in nearly all key categories, most notably Running and the Jordan Brand. Unit sales of footwear increased 19%, while lower ASP per pair reduced footwear revenue growth by approximately 3 percentage points, driven by lower full-price ASP resulting from product mix, as well as unfavorable off-price mix.

The currency-neutral apparel revenue growth of 23% for fiscal 2018 was fueled by higher revenues in all key categories, most notably Sportswear and, to a lesser extent, NIKE Basketball, the Jordan Brand and Running. Unit sales of apparel increased 20% and higher ASP per unit increased apparel revenue growth by approximately 3 percentage points. The increase in ASP per unit was attributable to higher full-price, off-price and NIKE Direct ASPs.

Reported EBIT increased 20% for fiscal 2018, driven by higher revenues and selling and administrative expense leverage, partially offset by lower gross margin. Gross margin contracted 210 basis points primarily due to unfavorable standard foreign currency exchange rates and lower off-price margin, including through our NIKE Direct business. Selling and administrative expense increased due to growth in operating overhead expense, primarily reflecting ongoing investments in our NIKE Direct business. Demand creation expense also grew, primarily driven by higher retail brand presentation costs.

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, Greater China revenues for fiscal 2017 increased 17%, driven by higher revenues in nearly all key categories, led by Running, Sportswear and the Jordan Brand. NIKE Direct revenues increased 32%, driven by strong digital commerce sales growth, the addition of new stores and comparable store sales growth of 9%.

The currency-neutral increase in footwear revenue for fiscal 2017 was driven by growth in nearly all key categories, most notably Running, Sportswear and the Jordan Brand. Unit sales of footwear increased 21%, while lower ASP per pair reduced footwear revenue growth by approximately 3 percentage points as higher off-price ASP was more than offset by lower NIKE Direct ASP and unfavorable off-price mix.

The currency-neutral apparel revenue growth for fiscal 2017 was due to higher revenues in nearly all key categories, led by Sportswear and Running. Unit sales of apparel increased 15% and higher ASP per unit increased apparel revenue growth by approximately 3 percentage points. The increase in ASP per unit was attributable to higher full-price ASP, partially offset by lower ASP in our NIKE Direct business and unfavorable off-price mix.

Despite the negative impact of translation, reported EBIT increased 10% for fiscal 2017 driven by higher revenues and selling and administrative expense leverage, partially offset by lower gross margin. Gross margin contracted 240 basis points primarily due to unfavorable standard foreign currency exchange rates and higher product costs. Selling and administrative expense increased due to higher operating overhead to support NIKE Direct growth. Demand creation expense also increased as higher marketing costs more than offset lower retail brand presentation and sports marketing expenses.

Asia Pacific & Latin America

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	% Change Excluding Currency Changes	Fiscal 2016	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$ 3,575	$ 3,285	9 %	9 %	$ 2,930	12 %	16 %
Apparel	1,347	1,185	14 %	15 %	1,117	6 %	9 %
Equipment	244	267	-9 %	-8 %	270	-1 %	-1 %
TOTAL REVENUES	**$ 5,166**	**$ 4,737**	**9 %**	**10 %**	**$ 4,317**	**10 %**	**13 %**
Revenues by:							
Sales to Wholesale Customers	$ 3,829	$ 3,631	5 %	6 %	$ 3,411	6 %	10 %
Sales through NIKE Direct	1,337	1,106	21 %	21 %	906	22 %	21 %
TOTAL REVENUES	**$ 5,166**	**$ 4,737**	**9 %**	**10 %**	**$ 4,317**	**10 %**	**13 %**
EARNINGS BEFORE INTEREST AND TAXES	**$ 1,189**	**$ 980**	**21 %**		**$ 1,002**	**-2 %**	

Fiscal 2018 Compared to Fiscal 2017

On a currency-neutral basis, APLA revenues increased 10%, driven by higher revenues in every territory. Territory revenue growth was broad-based, led by SOCO (which comprises Argentina, Uruguay and Chile), which grew 19%. Revenues increased in all key categories, led by Sportswear and Running. NIKE Direct revenues increased 21%, fueled by comparable store sales growth of 11%, strong digital commerce sales growth and the addition of new stores.

The 9% increase in currency-neutral footwear revenues for fiscal 2018 was attributable to growth in every key category, led by Sportswear and Running. Unit sales of footwear increased 5% and higher ASP per pair contributed approximately 4 percentage points of footwear revenue growth, driven by higher full-price, off-price and NIKE Direct ASPs.

Currency-neutral apparel revenues grew 15% for fiscal 2018, driven by higher revenues in every key category, most notably Sportswear and, to a lesser extent, Football (Soccer), Training and NIKE Basketball. Unit sales of apparel increased 11% and higher ASP per unit contributed approximately 4 percentage points of apparel revenue growth. The increase in ASP per unit was primarily driven by higher full-price ASP and, to a lesser extent, favorable off-price mix and higher off-price ASP.

Reported EBIT increased 21% due to revenue growth, strong selling and administrative expense leverage and gross margin expansion. Gross margin increased 90 basis points as higher full-price ASP and favorable standard foreign currency exchange rates more than offset higher product costs. Selling and administrative expense increased as higher operating overhead costs resulting from continued investments in our growing NIKE Direct business more than offset lower demand creation expense. The decrease in demand creation expense was primarily attributable to lower marketing costs as a result of prior year investments to support the Rio Olympics.

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, APLA revenues for fiscal 2017 increased 13%. Revenue growth was broad-based across all territories, led by SOCO, Korea and Mexico, which grew 34%, 14% and 18%, respectively. Additionally, revenues increased in all key categories, led by Running and Sportswear. NIKE Direct revenues increased 21%, fueled by the addition of new stores, comparable store sales growth of 11% and higher digital commerce sales.

The increase in currency-neutral footwear revenue for fiscal 2017 was attributable to growth in all key categories, most notably Running and Sportswear. Unit sales of footwear increased 9%. Higher ASP per pair contributed approximately 7 percentage points of footwear revenue growth, primarily attributable to higher full-price ASP, in part reflecting inflationary conditions in certain territories.

Currency-neutral growth in apparel revenue was fueled by increases in all key categories, led by Sportswear and Running. For fiscal 2017, unit sales of apparel increased 3% and higher ASP per unit contributed approximately 6 percentage points of apparel revenue growth. The increase in ASP per unit was primarily driven by higher full-price ASP, in part reflecting inflationary conditions in certain territories.

Reported EBIT decreased 2%, in part reflecting the negative impact of changes in foreign currency exchange rates, primarily the Argentine Peso and Mexican Peso. Reported revenue growth and selling and administrative expense leverage were more than offset by lower gross margin. Gross margin decreased 370 basis points as higher full-price ASP was more than offset by unfavorable standard foreign currency exchange rates and higher product costs. Selling and administrative expense increased due to higher operating overhead costs primarily resulting from ongoing investments in our growing NIKE Direct business, partially offset by administrative cost efficiencies. Demand creation expense also increased as lower advertising costs were more than offset by increased marketing support for the Rio Olympics in the first quarter, as well as higher sports marketing costs.

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Global Brand Divisions

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	% Change Excluding Currency Changes	Fiscal 2016	% Change	% Change Excluding Currency Changes
Revenues	$ 88	$ 73	21 %	12 %	$ 73	0 %	2 %
(Loss) Before Interest and Taxes	$ (2,658)	$ (2,677)	-1 %		$ (2,596)	3 %	

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.

Fiscal 2018 Compared to Fiscal 2017

Global Brand Divisions' loss before interest and taxes decreased 1% for fiscal 2018 as total selling and administrative expense was largely unchanged compared to fiscal 2017. Operating overhead expense increased due to higher administrative costs, which more than offset lower wage-related expenses. Demand creation expense decreased driven by lower advertising and marketing costs, largely resulting from prior year investments to support the Rio Olympics and the European Football Championship, which were only partially offset by higher sports marketing costs.

Fiscal 2017 Compared to Fiscal 2016

Global Brand Divisions' loss before interest and taxes increased 3% for fiscal 2017 primarily due to higher demand creation expense, which was only partially offset by a decline in operating overhead expense. The increase in demand creation expense was due to higher marketing and advertising expenses for key brand and sporting events, including the Rio Olympics and the European Football Championship in the first quarter. Operating overhead expense decreased as higher wage-related expenses were more than offset by administrative cost efficiencies and lower variable compensation.

Converse

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	% Change Excluding Currency Changes	Fiscal 2016	% Change	% Change Excluding Currency Changes
Revenues	$ 1,886	$ 2,042	-8 %	-11 %	$ 1,955	4 %	6 %
Earnings Before Interest and Taxes	$ 310	$ 477	-35 %		$ 487	-2 %	

In territories we define as "direct distribution markets," Converse designs, markets and sells products directly to distributors and wholesale customers, and to consumers through direct to consumer operations. The largest direct distribution markets are the United States, the United Kingdom and China. We do not own the Converse trademarks in Japan and accordingly do not earn revenues 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.

Fiscal 2018 Compared to Fiscal 2017

On a currency-neutral basis, revenues for Converse declined 11% for fiscal 2018. Comparable direct distribution markets (i.e., markets served under a direct distribution model for comparable periods in the current and prior fiscal years) declined 12%, reducing total Converse revenues by approximately 11 percentage points for fiscal 2018. Comparable direct distribution market unit sales decreased 14%, while higher ASP per unit contributed approximately 2 percentage points of direct distribution markets revenue growth. On a territory basis, the decrease in comparable direct distribution market revenues was primarily attributable to declines in both the United States and Europe, in part reflecting efforts to manage inventory levels in the marketplace, partially offset by revenue growth in Asia. Conversion of markets from licensed to direct distribution increased total Converse revenues by approximately 1 percentage point for fiscal 2018. Revenues from comparable licensed markets decreased 14%, reducing total Converse revenues by approximately 1 percentage point, driven by lower revenues in Latin America.

Reported EBIT declined 35% for fiscal 2018 driven by lower revenues, higher selling and administrative expense and, to a lesser extent, gross margin contraction. Gross margin decreased 100 basis points as higher full-price ASP was more than offset by higher product costs and the unfavorable impact of lower licensing revenues. Selling and administrative expense increased due to higher operating overhead and demand creation expense. Higher operating overhead expense was due to continued investment in our direct to consumer business and, to a lesser extent, higher wage-related costs, while higher demand creation expense was due to increased marketing support for initiatives to drive growth.

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, revenues for Converse increased 6% for fiscal 2017. Comparable direct distribution markets grew 4%, contributing approximately 4 percentage points of total Converse revenue growth for fiscal 2017. Comparable direct distribution market unit sales increased 2%, while higher ASP per unit contributed approximately 2 percentage points of direct distribution markets revenue growth. On a territory basis, the increase in comparable direct distribution market revenues was primarily attributable to growth in the United States, partially offset by lower revenues in Europe. Conversion of markets from licensed to direct distribution increased total Converse revenues by approximately 2 percentage points for fiscal 2017, primarily driven by the market transition in Italy. Revenues from comparable licensed markets decreased 5%, having an insignificant impact to total Converse revenue. The decrease in comparable licensed markets revenues is primarily due to lower revenues in Latin America.

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Reported EBIT declined 2% for fiscal 2017 as revenue growth and lower selling and administrative expense were more than offset by gross margin contraction. Gross margin decreased 300 basis points as higher full-price ASP was more than offset by unfavorable standard foreign currency exchange rates and higher product costs, primarily due to a shift in mix to lower margin products. Gross margin also contracted due to the unfavorable impact of lower licensing revenues, primarily due to market transitions. Selling and administrative expense decreased due to lower demand creation expense, primarily as a result of lower retail brand presentation costs, partially offset by higher advertising expense. Operating overhead increased as higher wage-related expenses were only partially offset by lower administrative costs.

Corporate

(Dollars in millions)	Fiscal 2018	Fiscal 2017	% Change	Fiscal 2016	% Change
Revenues	$ 26	$ 75	—	$ (86)	—
(Loss) Before Interest and Taxes	$ (1,456)	$ (724)	101 %	$ (1,173)	-38 %

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 largely consists 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.

Fiscal 2018 Compared to Fiscal 2017

For fiscal 2018, Corporate's loss before interest and taxes increased $732 million primarily due to the following:

- a detrimental change in net foreign currency gains and losses of $281 million 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 expense (income), net;*
- an unfavorable change of $255 million, primarily due to higher operating overhead expense driven by higher wage-related costs, in part reflecting one-time costs associated with our organizational realignment in the first half of fiscal 2018, as well as higher administrative costs; and
- a detrimental change of $196 million 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.

Fiscal 2017 Compared to Fiscal 2016

For fiscal 2017, Corporate's loss before interest and taxes decreased $449 million primarily due to the following:

- a beneficial change of $280 million 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;
- a beneficial change of $115 million, primarily driven by lower variable compensation and administrative costs in operating overhead expense; and
- an increase in net foreign currency gains of $54 million 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 expense (income), 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.

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 material to NIKE, Inc. We manage these exposures by taking advantage of natural offsets and currency correlations existing 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 existing 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 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.

Refer to Note 6 — Fair Value Measurements and Note 16 — Risk Management and Derivatives in the accompanying Notes to the 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.

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:

     a. Certain NIKE entities purchase product from the NTC, a wholly-owned sourcing hub that buys NIKE branded products from 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. NTC sales to a NIKE entity with a different functional currency result in 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 decreases inventory costs 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 expense (income), net*. Refer to Note 16 — Risk Management and Derivatives in the accompanying Notes to the 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 EMEA 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 entered into contractual agreements which have payments indexed to foreign currencies that create embedded derivative contracts recorded at fair value through *Other expense (income), net*. Refer to Note 16 — Risk Management and Derivatives in the accompanying Notes to the 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 expense (income), 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 U.S. GAAP, except for hedges of the embedded derivatives components of the product cost exposures and other contractual agreements as discussed above.

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 U.S. GAAP. Accordingly, changes in fair value of these instruments are immediately recognized in *Other expense (income), 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.

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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 the Consolidated Statements of Shareholders' Equity. In the translation of our 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 benefit of approximately $832 million and a detriment of approximately $542 million for the years ended May 31, 2018 and 2017, respectively. The impact of foreign exchange rate fluctuations on the translation of our *Income before income taxes* was a benefit of approximately $177 million and a detriment of approximately $115 million for the years ended May 31, 2018 and 2017, respectively.

Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Beginning in fiscal 2019, we anticipate the functional currency of our Argentina subsidiary within our APLA operating segment will change from the local currency to U.S. Dollars as the subsidiary will be operating in a hyper-inflationary market. As a result, its non-U.S. Dollar denominated monetary assets and liabilities will now be subject to re-measurement and recorded in *Other expense (income), net*, within the Consolidated Statements of Income beginning in fiscal 2019. Although we continue to evaluate the impact, at current rates, we do not anticipate the re-measurement to have a material impact on our results of operations or financial condition.

Managing Translational Exposures

To minimize the impact of translating foreign currency denominated revenues and expenses into U.S. Dollars for consolidated reporting, certain foreign subsidiaries use excess cash to purchase U.S. Dollar denominated available-for-sale investments. The variable future cash flows associated with the purchase and subsequent sale of these U.S. Dollar denominated securities at non-U.S. Dollar functional currency subsidiaries creates a foreign currency exposure that qualifies for hedge accounting under the accounting standards for derivatives and hedging. We utilize forward contracts and/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.

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 expense (income), net* had an unfavorable impact of approximately $110 million and $59 million on our *Income before income taxes* for the years ended May 31, 2018 and 2017, 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 U.S. GAAP. There were no outstanding net investment hedges as of May 31, 2018 and 2017. There were no cash flows from net investment hedge settlements for the years ended May 31, 2018 and 2017.

Liquidity and Capital Resources

Cash Flow Activity

Cash provided by operations was $4,955 million for fiscal 2018 compared to $3,846 million for fiscal 2017. Net income, adjusted for non-cash items, generated $3,473 million of operating cash flow for fiscal 2018 compared to $4,781 million for fiscal 2017. The net change in working capital and other assets and liabilities resulted in an increase of $1,482 million for fiscal 2018, compared to a decrease of $935 million for fiscal 2017. Impacting the change in working capital during fiscal 2018 was the accrual of $1,172 million for the transition tax under the Tax Act, which will be paid in cash over an eight-year period. Refer to Note 9 — Income Taxes for additional information on the Tax Act. *Cash provided by operations* was also impacted by the change in *Accounts Receivable, net*, which decreased $187 million, primarily due to improved collection timing, compared to an increase of $426 million in fiscal 2017.

Cash provided (used) by investing activities was an inflow of $276 million for fiscal 2018, compared to an outflow of $1,008 million for fiscal 2017, driven primarily by the net change in short-term investments. During fiscal 2018, the net change in investments (including sales, maturities and purchases) resulted in a cash inflow of $1,326 million compared to an inflow of $118 million in fiscal 2017.

In fiscal 2019, we plan to continue investing in our infrastructure to support future growth, including corporate facilities, expanding our digital capabilities and new NIKE Direct stores. We continue to expect such investments to approximate 3% to 4% of revenues, on average.

Cash used by financing activities was $4,835 million for fiscal 2018 compared to $2,148 million for fiscal 2017. The increase in *Cash used by financing activities* was primarily driven by $1,482 million of net proceeds from the issuance of long-term debt in fiscal 2017, which did not recur in fiscal 2018. The increase in *Cash used by financing activities* was also impacted by increased repurchases of common stock, which resulted in a cash outflow of $4,254 million for fiscal 2018 compared to an outflow of $3,223 million for fiscal 2017.

In fiscal 2018, we purchased 69.7 million shares of NIKE's Class B Common Stock for $4,267 million (an average price of $61.25 per share) under the four-year, $12 billion program approved by the Board of Directors in November 2015. As of May 31, 2018, we had repurchased 149.4 million shares at a cost of $8,704 million (an average price of $58.25 per share) under this program. Although the timing and number of shares purchased will be dictated by our capital needs and stock market conditions, we currently anticipate completing this program during fiscal 2019. In June 2018, our Board of Directors approved a new four-year, $15 billion program to repurchase shares of NIKE's Class B Common Stock, which we anticipate will commence at the completion of our current program. We continue to expect funding of share repurchases will come from operating cash flows, excess cash and/or proceeds from debt.

Capital Resources

On July 21, 2016, we filed a shelf registration statement (the “Shelf”) with the SEC which permits us to issue an unlimited amount of debt securities from time to time. The Shelf expires on July 21, 2019. For additional detail refer to Note 8 — Long-Term Debt in the accompanying Notes to the Consolidated Financial Statements.

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. As of and for the periods ended May 31, 2018 and 2017, we had no amounts outstanding under the 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 ratings were to decline, the facility fee and interest rate under our committed credit facility would increase. Conversely, if our long-term debt ratings were to improve, the facility fee and interest rate would decrease. Changes in our long-term debt ratings would not trigger acceleration of maturity of any then-outstanding borrowings or any future borrowings under the committed credit facility. Under this 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 limits 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 May 31, 2018, 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. During the year ended May 31, 2018, the maximum amount of commercial paper borrowings outstanding at any point was $1.4 billion. As of May 31, 2018, there were $325 million of outstanding borrowings under this program. We may continue to issue commercial paper or other debt securities during fiscal 2019 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.

To date, in fiscal 2018, we have not experienced difficulty accessing the credit markets or incurred higher interest costs; however, future volatility in the capital markets may increase costs associated with issuing commercial paper or other debt instruments or affect our ability to access those markets.

As of May 31, 2018, we had cash, cash equivalents and short-term investments totaling $5.2 billion, primarily consisting 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 May 31, 2018, the weighted-average days to maturity of our cash equivalents and short-term investments portfolio was 33 days.

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.

Off-Balance Sheet Arrangements

In connection with various contracts and agreements, we routinely provide indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where we are acting as the guarantor. Currently, we have several such agreements in place. Based on our historical experience and the estimated probability of future loss, we have determined that the fair value of such indemnification is not material to our financial position or results of operations.

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Contractual Obligations

Our significant long-term contractual obligations as of May 31, 2018, and significant endorsement contracts, including related marketing commitments, entered into through the date of this report are as follows:

Description of Commitment	**Cash Payments Due During the Year Ending May 31,**						
(In millions)	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Operating Leases	$ 589	$ 523	$ 472	$ 412	$ 361	$ 1,608	$ 3,965
Capital Leases and Other Financing Obligations(1)	44	37	40	38	36	229	424
Long-Term Debt(2)	115	115	112	109	609	4,713	5,773
Endorsement Contracts(3)	1,391	1,306	1,158	1,266	942	4,438	10,501
Product Purchase Obligations(4)	4,566	—	—	—	—	—	4,566
Other Purchase Obligations(5)	1,437	512	281	92	70	254	2,646
Transition Tax Related to the Tax Act(6)	94	94	94	94	94	702	1,172
TOTAL	**$ 8,236**	**$ 2,587**	**$ 2,157**	**$ 2,011**	**$ 2,112**	**$ 11,944**	**$ 29,047**

(1) Capital leases and other financing obligations include payments related to build-to-suit lease arrangements.

(2) The cash payments due for long-term debt include estimated interest payments. Estimates of interest payments are based on outstanding principal amounts, applicable fixed interest rates or currently effective interest rates as of May 31, 2018 (if variable), timing of scheduled payments and the term of the debt obligations.

(3) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, public figure, 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.

(4) We generally order product at least four to five months in advance of sale based primarily on advanced orders received from external wholesale customers and internal orders from our NIKE Direct in-line stores and digital commerce operations. The amounts listed for product purchase obligations represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and specify all significant terms. In some cases, prices are subject to change throughout the production process.

(5) Other purchase obligations primarily include construction, service and marketing commitments, including marketing commitments associated with endorsement contracts, made in the ordinary course of business. The amounts represent the minimum payments required by legally binding contracts and agreements that specify all significant terms, including open purchase orders for non-product purchases.

(6) Represents a provisional estimate of the future cash payments due as part of the transition tax on deemed repatriation of undistributed earnings of foreign subsidiaries, which is reflected net of foreign tax credits we expect to utilize. Actual amounts could vary as we complete our analysis of the Tax Act. Refer to Note 9 — Income Taxes in the accompanying Notes to the Financial Statements for additional information.

In addition to the above, we have long-term obligations for uncertain tax positions and various post-retirement benefits for which we are not able to reasonably estimate when cash payments will occur. Refer to Note 9 — Income Taxes and Note 13 — Benefit Plans in the accompanying Notes to the Consolidated Financial Statements for further information related to uncertain tax positions and post-retirement benefits, respectively.

We also have the following outstanding short-term debt obligations as of May 31, 2018. Refer to Note 7 — Short-Term Borrowings and Credit Lines in the accompanying Notes to the Consolidated Financial Statements for further description and interest rates related to the short-term debt obligations listed below.

(In millions)	**Outstanding as of May 31, 2018**

Notes payable, due at mutually agreed-upon dates within one year of issuance or on demand	$	336
Payable to Sojitz America for the purchase of inventories, generally due 60 days after shipment of goods from a foreign port		61

As of May 31, 2018, the Company had letters of credit outstanding totaling $165 million. These letters of credit were issued primarily for the purchase of inventory and as guarantees of the Company's performance under certain self-insurance and other programs.

New Accounting Pronouncements

Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for recently adopted and recently issued accounting standards.

Critical Accounting Policies

Our previous discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

We believe the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Management has reviewed and discussed these critical accounting policies with the Audit & Finance Committee of the Board of Directors.

These policies require we make estimates in the preparation of our financial statements as of a given date. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Revenue Recognition

We record wholesale revenues when title passes and the risks and rewards of ownership have passed to the customer, based on the terms of sale. Title passes generally upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale and digital commerce revenues are recorded upon delivery to the customer.

In some instances, we ship product directly from our supplier to the customer and recognize revenue when the product is delivered to and accepted by the customer. Our revenues may fluctuate in cases when our customers delay accepting shipment of product for periods of up to several weeks.

In certain countries, precise information regarding the date of receipt by the customer is not readily available. In these cases, we estimate the date of receipt by the customer based upon historical delivery times by geographic location. On the basis of our tests of actual transactions, we have no indication these estimates have been materially inaccurate historically.

As part of our revenue recognition policy, we record estimated sales returns, discounts and miscellaneous claims from customers as reductions to revenues at the time revenues are recorded. Our post invoice sales discounts consist of contractual programs with certain customers or discretionary discounts expected to be granted to certain customers at a later date. We base our estimates on (1) historical rates of product returns, discounts and claims, (2) specific identification of outstanding claims and outstanding returns not yet received from customers and (3) estimated returns, discounts and claims expected but not yet finalized with our customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns, discounts and claims are significantly greater or lower than established reserves, we record a reduction or increase to net revenues in the period in which we make such determination.

Allowance for Uncollectible Accounts Receivable

We make ongoing estimates relating to the ability to collect our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Since we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger allowance might be required. In the event we determine a smaller or larger allowance is appropriate, we would record a credit or a charge to *Operating overhead expense* in the period in which such a determination is made.

Inventory Reserves

We also make ongoing estimates relating to the net realizable value of inventories based upon our assumptions about future demand and market conditions. If we estimate the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated net realizable value. This reserve is recorded as a charge to *Cost of sales*. If changes in market conditions result in reductions in the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination.

Contingent Payments under Endorsement Contracts

A significant amount of our *Demand creation expense* relates to payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g., winning a championship). We record demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When we determine payments are probable, the amounts are reported in *Demand creation expense* ratably over the contract period based on our best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from our estimate due to changes in the endorser's performance, adjustments to *Demand creation expense* may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products. We expense these payments in *Cost of sales* as the related sales occur. In certain contracts, we offer minimum guaranteed royalty payments. For contracts for which we estimate we will not meet the minimum guaranteed amount of royalty fees through sales of product, we record the amount of the guaranteed payment in excess of that earned through sales of product in *Demand creation expense* uniformly over the contract term.

Property, Plant and Equipment and Definite-Lived Assets

We review the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies that would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

Hedge Accounting for Derivatives

We use derivative contracts to hedge certain anticipated foreign currency and interest rate transactions as well as certain non-functional currency monetary assets and liabilities. When the specific criteria to qualify for hedge accounting has been met, changes in the fair value of contracts hedging probable forecasted future cash flows are recorded in *Accumulated other comprehensive income*, rather than *Net income*, until the underlying hedged transaction affects *Net income*. In most cases, this results in gains and losses on hedge derivatives being released from *Other comprehensive income* into *Net income* sometime after the maturity of the derivative. One of the criteria for this accounting treatment is that the notional value of these derivative contracts should not be in excess of specifically identified anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When anticipated transaction estimates or actual transaction amounts decline below hedged levels, or if it is no longer probable a forecasted transaction will occur by the end of the originally specified time period or within an additional two-month period of time thereafter, we are required to reclassify the cumulative change in fair value of the over-hedged portion of the related hedge contract from *Other comprehensive income* to *Other expense (income), net* during the quarter in which the decrease occurs.

Stock-based Compensation

We account for stock-based compensation by estimating the fair value of stock-based compensation on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions including volatility. Expected volatility is estimated based on implied volatility in market traded options on our common stock with a term greater than one year, along with other factors. Our decision to use implied volatility was based on the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. If factors change and we use different assumptions for estimating stock-based compensation expense in future periods, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Income Taxes

We are subject to taxation in the United States, as well as various state and foreign jurisdictions. The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. On an interim basis, we estimate what our effective tax rate will be for the full fiscal year. This estimated annual effective tax rate is then applied to the year-to-date *Income before income taxes* excluding infrequently occurring or unusual items, to determine the year-to-date *Income tax expense*. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs.

We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets (such as net operating loss carry-forwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our net deferred tax asset, which increases our *Income tax expense* in the period when such determination is made.

On a quarterly basis, we evaluate the probability a tax position will be effectively sustained and the appropriateness of the amount recognized for uncertain tax positions based on factors including changes in facts or circumstances, changes in tax law, settled audit issues and new audit activity. Changes in our assessment may result in the recognition of a tax benefit or an additional charge to the tax provision in the period our assessment changes. We recognize interest and penalties related to income tax matters in *Income tax expense*.

On December 22, 2017, the United States enacted the Tax Act, which significantly changes previous U.S. tax laws, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings, a reduction in the corporate tax rate from 35% to 21%, as well as other changes. In accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118 ("SAB 118"), we recorded provisional amounts, which represent reasonable estimates of the effects of the Tax Act for which the analysis is not yet complete. As the Company completes its analysis of the Tax Act, including collecting, preparing and analyzing necessary information, performing and refining calculations and obtaining additional guidance from the U.S. Internal Revenue Services (IRS), U.S. Treasury Department, Financial Accounting Standards Board (FASB) or other standard setting and regulatory bodies on the Tax Act, it may record adjustments to the provisional amounts, which may be material. In accordance with SAB 118, the Company’s accounting for the tax effects of the Tax Act will be completed during the measurement period, which should not extend beyond one year from the enactment date.

Refer to Note 9 — Income Taxes in the accompanying Notes to the Consolidated Financial Statements for additional information.

Other Contingencies

In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. If future adjustments to estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred. In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility the ultimate loss will materially exceed the recorded liability. While we cannot predict the outcome of pending legal matters with certainty, we do not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on our results of operations, financial position or cash flows.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business and consistent with established policies and procedures, we employ a variety of financial instruments to manage exposure to fluctuations in the value of foreign currencies and interest rates. It is our policy to utilize these financial instruments only where necessary to finance our business and manage such exposures; we do not enter into these transactions for trading or speculative purposes.

We are exposed to foreign currency fluctuations, primarily as a result of our international sales, product sourcing and funding activities. 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 use forward and option contracts to hedge certain anticipated, but not yet firmly committed, transactions as well as certain firm commitments and the related receivables and payables, including third-party and intercompany transactions. We have, in the past, and may in the future, also use forward or options contracts to hedge our investment in the net assets of certain international subsidiaries to offset foreign currency translation adjustments related to our net investment in those subsidiaries. Where exposures are hedged, our program has the effect of delaying the impact of exchange rate movements on our Consolidated Financial Statements.

The timing for hedging exposures, as well as the type and duration of the hedge instruments employed, are guided by our hedging policies and determined based upon the nature of the exposure and prevailing market conditions. 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 majority of derivatives outstanding as of May 31, 2018 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro and Japanese Yen/U.S. Dollar currency pairs. Refer to Note 16 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional information.

Our earnings are also exposed to movements in short- and long-term market interest rates. Our objective in managing this interest rate exposure is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve these objectives, we maintain a mix of commercial paper, bank loans, and fixed-rate debt of varying maturities.

Market Risk Measurement

We monitor foreign exchange risk, interest rate risk and related derivatives using a variety of techniques including a review of market value, sensitivity analysis and Value-at-Risk (“VaR”). Our market-sensitive derivative and other financial instruments are foreign currency forward contracts, foreign currency option contracts, interest rate swaps, intercompany loans denominated in non-functional currencies, fixed interest rate U.S. Dollar denominated debt and fixed interest rate Japanese Yen denominated debt.

We use VaR to monitor the foreign exchange risk of our foreign currency forward and foreign currency option derivative instruments only. The VaR determines the maximum potential one-day loss in the fair value of these foreign exchange rate-sensitive financial instruments. The VaR model estimates assume normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the VaR computation. Our computations are based on interrelationships between currencies and interest rates (a “variance/co-variance” technique). These interrelationships are a function of foreign exchange currency market changes and interest rate changes over the preceding one-year period. The value of foreign currency options does not change on a one-to-one basis with changes in the underlying currency rate. We adjust the potential loss in option value for the estimated sensitivity (the “delta” and “gamma”) to changes in the underlying currency rate. This calculation reflects the impact of foreign currency rate fluctuations on the derivative instruments only and does not include the impact of such rate fluctuations on non-functional currency transactions (such as anticipated transactions, firm commitments, cash balances and accounts and loans receivable and payable), including those which are hedged by these instruments.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value we will incur nor does it consider the potential effect of favorable changes in market rates. It also does not represent the full extent of the possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in fair value on our foreign currency sensitive derivative financial instruments, derived using the VaR model, was $93 million and $97 million at May 31, 2018 and 2017, respectively. The VAR decreased year-over-year as a result of a decrease in foreign currency volatilities at May 31, 2018. Such a hypothetical loss in the fair value of our derivatives would be offset by increases in the value of the underlying transactions being hedged. The average monthly change in the fair values of foreign currency forward and foreign currency option derivative instruments was $260 million and $161 million during fiscal 2018 and fiscal 2017, respectively.

The instruments not included in the VaR are intercompany loans denominated in non-functional currencies, fixed interest rate Japanese Yen denominated debt, fixed interest rate U.S. Dollar denominated debt and interest rate swaps. Intercompany loans and related interest amounts are eliminated in consolidation. Furthermore, our non-functional currency intercompany loans are substantially hedged against foreign exchange risk through the use of forward contracts, which are included in the VaR calculation above. Therefore, we consider the interest rate and foreign currency market risks associated with our non-functional currency intercompany loans to be immaterial to our consolidated financial position, results from operations and cash flows.

Details of third-party debt are provided in the table below. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

(Dollars in millions)	Expected Maturity Date Year Ending May 31, 2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
Foreign Exchange Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$ 6	$ 6	$ 3	$ —	$ —	$ —	$ 15	$ 16
Average interest rate	2.4 %	2.4 %	2.4 %	0.0 %	0.0 %	0.0 %	2.4 %	
Interest Rate Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$ 6	$ 6	$ 3	$ —	$ —	$ —	$ 15	$ 16
Average interest rate	2.4 %	2.4 %	2.4 %	0.0 %	0.0 %	0.0 %	2.4 %	
U.S. Dollar Functional Currency								
Long-term U.S. Dollar debt — Fixed rate								
Principal payments	$ —	$ —	$ —	$ —	$ 500	$ 3,000	$ 3,500	$ 3,279
Average interest rate	0.0 %	0.0 %	0.0 %	0.0 %	2.3 %	3.3 %	3.1 %	

The fixed interest rate Japanese Yen denominated debt instruments were issued by and are accounted for by one of our Japanese subsidiaries. Accordingly, the monthly translation of these instruments, which varies due to changes in foreign exchange rates, is recognized in *Accumulated other comprehensive income* upon consolidation of this subsidiary.

ITEM 8. Financial Statements and Supplementary Data

Management of NIKE, Inc. is responsible for the information and representations contained in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include certain amounts based on our best estimates and judgments. Other financial information in this report is consistent with these financial statements.

Our accounting systems include controls designed to reasonably assure assets are safeguarded from unauthorized use or disposition and provide for the preparation of financial statements in conformity with U.S. GAAP. These systems are supplemented by the selection and training of qualified financial personnel and an organizational structure providing for appropriate segregation of duties.

An internal corporate audit department reviews the results of its work with the Audit & Finance Committee of the Board of Directors, presently comprised of three outside, independent directors. The Audit & Finance Committee is responsible for the appointment of the independent registered public accounting firm and reviews, with the independent registered public accounting firm, management and the internal corporate audit staff, the scope and the results of the annual audit, the effectiveness of the accounting control system and other matters relating to the financial affairs of NIKE as the Audit & Finance Committee deems appropriate. The independent registered public accounting firm and the internal corporate auditors have full access to the Audit & Finance Committee, with and without the presence of management, to discuss any appropriate matters.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a) - 15(f) and Rule 15(d) - 15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets of the Company that could have a material effect on the financial statements.

While "reasonable assurance" is a high level of assurance, it does not mean absolute assurance. Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement and instance of fraud. Controls are susceptible to manipulation, especially in instances of fraud caused by the collusion of two or more people, including our senior management. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of May 31, 2018.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited (1) the Consolidated Financial Statements and (2) the effectiveness of our internal control over financial reporting as of May 31, 2018, as stated in their report herein.

Mark G. Parker
Chairman, President and Chief Executive Officer

Andrew Campion
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NIKE, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NIKE, Inc. and its subsidiaries as of May 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended May 31, 2018, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of May 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2018 and 2017**,** and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based payment awards to employees as of June 1, 2017.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/S/ PricewaterhouseCoopers LLP

Portland, Oregon

July 24, 2018

We have served as the Company's auditor since 1974.

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NIKE, Inc. Consolidated Statements of Income

	Year Ended May 31,		
(In millions, except per share data)	2018	2017	2016
Revenues	$ 36,397	$ 34,350	$ 32,376
Cost of sales	20,441	19,038	17,405
Gross profit	15,956	15,312	14,971
Demand creation expense	3,577	3,341	3,278
Operating overhead expense	7,934	7,222	7,191
Total selling and administrative expense	11,511	10,563	10,469
Interest expense (income), net	54	59	19
Other expense (income), net	66	(196)	(140)
Income before income taxes	4,325	4,886	4,623
Income tax expense	2,392	646	863
NET INCOME	**$ 1,933**	**$ 4,240**	**$ 3,760**
Earnings per common share:			
Basic	$ 1.19	$ 2.56	$ 2.21
Diluted	$ 1.17	$ 2.51	$ 2.16
Dividends declared per common share	$ 0.78	$ 0.70	$ 0.62

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

NIKE, Inc. Consolidated Statements of Comprehensive Income

	Year Ended May 31,		
(In millions)	**2018**	**2017**	**2016**
Net income	$ 1,933	$ 4,240	$ 3,760
Other comprehensive income (loss), net of tax:			
Change in net foreign currency translation adjustment	(6)	16	(176)
Change in net gains (losses) on cash flow hedges	76	(515)	(757)
Change in net gains (losses) on other	34	(32)	5
Total other comprehensive income (loss), net of tax	104	(531)	(928)
TOTAL COMPREHENSIVE INCOME	**$ 2,037**	**$ 3,709**	**$ 2,832**

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

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NIKE, Inc. Consolidated Balance Sheets

	May 31,	
(In millions)	**2018**	**2017**
ASSETS		
Current assets:		
Cash and equivalents	$ 4,249	$ 3,808
Short-term investments	996	2,371
Accounts receivable, net	3,498	3,677
Inventories	5,261	5,055
Prepaid expenses and other current assets	1,130	1,150
Total current assets	15,134	16,061
Property, plant and equipment, net	4,454	3,989
Identifiable intangible assets, net	285	283
Goodwill	154	139
Deferred income taxes and other assets	2,509	2,787
TOTAL ASSETS	**$ 22,536**	**$ 23,259**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 6	$ 6
Notes payable	336	325
Accounts payable	2,279	2,048
Accrued liabilities	3,269	3,011
Income taxes payable	150	84
Total current liabilities	6,040	5,474
Long-term debt	3,468	3,471
Deferred income taxes and other liabilities	3,216	1,907
Commitments and contingencies (Note 15)		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 329 and 329 shares outstanding	—	—
Class B — 1,272 and 1,314 shares outstanding	3	3
Capital in excess of stated value	6,384	5,710
Accumulated other comprehensive loss	(92)	(213)
Retained earnings	3,517	6,907
Total shareholders' equity	9,812	12,407
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 22,536**	**$ 23,259**

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

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NIKE, Inc. Consolidated Statements of Cash Flows

	Year Ended May 31,		
(In millions)	**2018**	**2017**	**2016**
Cash provided by operations:			
Net income	$ 1,933	$ 4,240	$ 3,760
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	747	706	649
Deferred income taxes	647	(273)	(80)
Stock-based compensation	218	215	236
Amortization and other	27	10	13
Net foreign currency adjustments	(99)	(117)	98
Changes in certain working capital components and other assets and liabilities:			
Decrease (increase) in accounts receivable	187	(426)	60
(Increase) in inventories	(255)	(231)	(590)
Decrease (increase) in prepaid expenses and other current and non-current assets	35	(120)	(161)
Increase (decrease) in accounts payable, accrued liabilities and other current and non-current liabilities	1,515	(158)	(586)
Cash provided by operations	4,955	3,846	3,399
Cash provided (used) by investing activities:			
Purchases of short-term investments	(4,783)	(5,928)	(5,367)
Maturities of short-term investments	3,613	3,623	2,924
Sales of short-term investments	2,496	2,423	2,386
Investments in reverse repurchase agreements	—	—	150
Additions to property, plant and equipment	(1,028)	(1,105)	(1,143)
Disposals of property, plant and equipment	3	13	10
Other investing activities	(25)	(34)	6
Cash provided (used) by investing activities	276	(1,008)	(1,034)
Cash used by financing activities:			
Net proceeds from long-term debt issuance	—	1,482	981
Long-term debt payments, including current portion	(6)	(44)	(106)
Increase (decrease) in notes payable	13	327	(67)
Payments on capital lease and other financing obligations	(23)	(17)	(7)
Proceeds from exercise of stock options and other stock issuances	733	489	507
Repurchase of common stock	(4,254)	(3,223)	(3,238)
Dividends — common and preferred	(1,243)	(1,133)	(1,022)
Tax payments for net share settlement of equity awards	(55)	(29)	(22)
Cash used by financing activities	(4,835)	(2,148)	(2,974)
Effect of exchange rate changes on cash and equivalents	45	(20)	(105)
Net increase (decrease) in cash and equivalents	441	670	(714)
Cash and equivalents, beginning of year	3,808	3,138	3,852
CASH AND EQUIVALENTS, END OF YEAR	**$ 4,249**	**$ 3,808**	**$ 3,138**
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 125	$ 98	$ 70

Income taxes	529	703	748
Non-cash additions to property, plant and equipment	294	266	252
Dividends declared and not paid	320	300	271

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

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NIKE, Inc. Consolidated Statements of Shareholders' Equity

	Common Stock				Capital in Excess of Stated Value	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Class A		Class B					
(In millions, except per share data)	Shares	Amount	Shares	Amount				
Balance at May 31, 2015	**355**	**$ —**	**1,357**	**$ 3**	**$ 4,165**	**$ 1,246**	**$ 7,293**	**$ 12,707**
Stock options exercised			22		680			680
Conversion to Class B Common Stock	(2)	—	2	—				—
Repurchase of Class B Common Stock			(55)		(148)		(3,090)	(3,238)
Dividends on common stock ($0.62 per share) and preferred stock ($0.10 per share)							(1,053)	(1,053)
Issuance of shares to employees, net of shares withheld for employee taxes			3		105		(11)	94
Stock-based compensation					236			236
Net income							3,760	3,760
Other comprehensive income (loss)						(928)		(928)
Balance at May 31, 2016	**353**	**$ —**	**1,329**	**$ 3**	**$ 5,038**	**$ 318**	**$ 6,899**	**$ 12,258**
Stock options exercised			17		525			525
Conversion to Class B Common Stock	(24)	—	24	—				—
Repurchase of Class B Common Stock			(60)		(189)		(3,060)	(3,249)
Dividends on common stock ($0.70 per share) and preferred stock ($0.10 per share)							(1,159)	(1,159)
Issuance of shares to employees, net of shares withheld for employee taxes			4		121		(13)	108
Stock-based compensation					215			215
Net income							4,240	4,240
Other comprehensive income (loss)						(531)		(531)
Balance at May 31, 2017	**329**	**$ —**	**1,314**	**$ 3**	**$ 5,710**	**$ (213)**	**$ 6,907**	**$ 12,407**
Stock options exercised			24		600			600
Conversion to Class B Common Stock	—	—	—	—				—
Repurchase of Class B Common Stock			(70)		(254)		(4,013)	(4,267)
Dividends on common stock ($0.78 per share) and preferred stock ($0.10 per share)							(1,265)	(1,265)
Issuance of shares to employees, net of shares withheld for employee taxes			4		110		(28)	82
Stock-based compensation					218			218
Net income							1,933	1,933
Other comprehensive income (loss)						104		104
						17	(17)	—

Reclassifications to retained earnings in accordance with ASU 2018-02													
Balance at May 31, 2018	**329**	**$**	**—**	**1,272**	**$**	**3**	**$**	**6,384**	**$**	**(92)**	**$**	**3,517**	**$ 9,812**

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

Notes to Consolidated Financial Statements

NOTE 1 — Summary of Significant Accounting Policies

Description of Business

NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across a wide range of sport categories, amplified with sport-inspired sportswear products carrying the Swoosh trademark, as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories using the Jumpman trademark. Sales and operating results of Jordan Brand products are reported within the respective NIKE Brand geographic operating segments. The Hurley brand is focused on surf and action sports and youth lifestyle footwear, apparel and accessories, using the Hurley trademark. Sales and operating results of Hurley brand products are reported within the NIKE Brand's North America geographic operating segment. Converse designs, distributes, markets and sells casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. In some markets outside the U.S., these trademarks are licensed to third parties who design, distribute, market and sell similar products. Operating results of the Converse brand are reported on a stand-alone basis.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of NIKE, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated.

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 2018 presentation, including reclassified geographic operating segment data to reflect the changes in the Company's operating structure, which became effective on June 1, 2017. Refer to Note 17 — Operating Segments and Related Information for additional information.

During the fourth quarter of fiscal 2018, management identified a misstatement related to the historical allocation of repurchases of Class B Common stock between *Capital in excess of stated value* and *Retained earnings*. The Company assessed the materiality of these misstatements on prior period financial statements in accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 99, Materiality, codified in ASC 250, Presentation of Financial Statements, and concluded that these misstatements were not material to any prior annual or interim period. As such, the Company has revised the Consolidated Balance Sheets as of May 31, 2017, and has reduced *Capital in excess of stated value* by $2.9 billion and increased *Retained earnings* by the same amount. Within the Consolidated Statements of Shareholders' Equity, the Company has made corresponding revisions of $2.6 billion, $0.1 billion and $0.2 billion for the periods ended May 31, 2015, 2016 and, 2017, respectively.

Revenue Recognition

Wholesale revenues are recognized when title and the risks and rewards of ownership have passed to the customer, based on the terms of sale. This occurs upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale and digital commerce revenues are recorded upon delivery to the customer. Amounts collected from customers for sales or value added tax are recorded on a net basis. Provisions for post-invoice sales discounts, returns and miscellaneous claims from customers are estimated and recorded as a reduction to revenue at the time of sale. Post-invoice sales discounts consist of contractual programs with certain customers or discretionary discounts expected to be granted to certain customers at a later date. Estimates of discretionary discounts, returns and claims are based on (1) historical rates, (2) specific identification of outstanding claims and outstanding returns not yet received from customers and (3) estimated discounts, returns and claims expected, but not yet finalized with customers. As of May 31, 2018 and 2017, the Company's reserve balances for post-invoice sales discounts, returns and miscellaneous claims were $675 million and $643 million, respectively.

Cost of Sales

Cost of sales consists primarily of inventory costs, as well as warehousing costs (including the cost of warehouse labor), third-party royalties, certain foreign currency hedge gains and losses and product design costs. Outbound shipping and handling costs are expensed as incurred and included in *Cost of sales*.

Demand Creation Expense

Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, complimentary product, television, digital and print advertising and media costs, brand events and retail brand presentation. Advertising production costs are expensed the first time an advertisement is run. Advertising media costs are expensed when the advertisement appears. Costs related to brand events are expensed when the event occurs. Costs related to retail brand presentation are expensed when the presentation is complete and delivered.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. In general, endorsement payments are expensed on a straight-line basis over the term of the contract. However, certain contract elements may be accounted for differently based upon the facts and circumstances of each individual contract. Prepayments made under contracts are included in *Prepaid expenses and other current assets* or *Deferred income taxes and other assets* depending on the period to which the prepayment applies.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g., winning a championship). The Company records *Demand creation expense* for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When the Company determines payments are probable, the amounts are reported in *Demand creation expense* ratably over the contract period based on the Company's best estimate of the endorser's performance. In these instances, to the extent actual payments to the endorser differ from the Company's estimate due to changes in the endorser's performance, adjustments to *Demand creation expense* may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products. The Company expenses these payments in *Cost of sales* as the related sales occur. In certain contracts, the Company offers minimum guaranteed royalty payments. For contracts the Company estimates will not meet the minimum guaranteed amount of royalty fees through sales of product, the Company records the amount of the guaranteed payment in excess of that earned through sales of product in *Demand creation expense* uniformly over the contract period.

Through cooperative advertising programs, the Company reimburses customers for certain costs of advertising the Company's products. The Company records these costs in *Demand creation expense* at the point in time when it is obligated to its customers for the costs. This obligation may arise prior to the related advertisement being run.

Total advertising and promotion expenses, which the Company refers to as *Demand creation expense,* were $3,577 million, $3,341 million and $3,278 million for the years ended May 31, 2018, 2017 and 2016, respectively. Prepaid advertising and promotion expenses totaled $730 million and $558 million at May 31, 2018 and 2017, respectively, of which $359 million and $311 million, respectively, was recorded in *Prepaid expenses and other current assets*, and $371 million and $247 million, respectively, was recorded in *Deferred income taxes and other assets,* depending on the period to which the prepayment applies.

Operating Overhead Expense

Operating overhead expense consists primarily of wage and benefit-related expenses, research and development costs, as well as other administrative expenses, such as rent, depreciation and amortization, professional services, meetings and travel.

Cash and Equivalents

Cash and equivalents represent cash and short-term, highly liquid investments, that are both readily convertible to known amounts of cash, and so near their maturity they present insignificant risk of changes in value because of changes in interest rates, including commercial paper, U.S. Treasury, U.S. Agency, money market funds, time deposits and corporate debt securities with maturities of 90 days or less at the date of purchase.

Short-Term Investments

Short-term investments consist of highly liquid investments, including commercial paper, U.S. Treasury, U.S. Agency, time deposits and corporate debt securities, with maturities over 90 days at the date of purchase. Debt securities the Company has the ability and positive intent to hold to maturity are carried at amortized cost. At May 31, 2018 and 2017, the Company did not hold any short-term investments classified as trading or held-to-maturity.

At May 31, 2018 and 2017, *Short-term investments* consisted of available-for-sale securities. Available-for-sale securities are recorded at fair value with unrealized gains and losses reported, net of tax, in *Accumulated other comprehensive income*, unless unrealized losses are determined to be other than temporary. Realized gains and losses on the sale of securities are determined by specific identification. The Company considers all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and, therefore, classifies all securities with maturity dates beyond 90 days at the date of purchase as current assets within *Short-term investments* on the Consolidated Balance Sheets.

Refer to Note 6 — Fair Value Measurements for more information on the Company's short-term investments.

Allowance for Uncollectible Accounts Receivable

Accounts receivable, net consist primarily of amounts receivable from customers. The Company makes ongoing estimates relating to the collectability of its accounts receivable and maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. In determining the amount of the allowance, the Company considers historical levels of credit losses and makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Accounts receivable with anticipated collection dates greater than 12 months from the balance sheet date and related allowances are considered non-current and recorded in *Deferred income taxes and other assets*. The allowance for uncollectible accounts receivable was $30 million and $19 million at May 31, 2018 and 2017, respectively.

Inventory Valuation

Inventories are stated at lower of cost and net realizable value, and valued on either an average or a specific identification cost basis. In some instances, we ship product directly from our supplier to the customer, with the related inventory and cost of sales recognized on a specific identification basis. Inventory costs primarily consist of product cost from the Company's suppliers, as well as inbound freight, import duties, taxes, insurance and logistics and other handling fees.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are recorded at cost. Depreciation is determined on a straight-line basis for land improvements, buildings and leasehold improvements over 2 to 40 years and for machinery and equipment over 2 to 15 years.

Depreciation and amortization of assets used in manufacturing, warehousing and product distribution are recorded in *Cost of sales*. Depreciation and amortization of all other assets are recorded in *Operating overhead expense*.

Software Development Costs

Internal Use Software: Expenditures for major software purchases and software developed for internal use are capitalized and amortized over a 2 to 12-year period on a straight-line basis. The Company's policy provides for the capitalization of external direct costs of materials and services associated with developing or obtaining internal use computer software. In addition, the Company also capitalizes certain payroll and payroll-related costs for employees who are directly associated with internal use computer software projects. The amount of capitalizable payroll costs with respect to these employees is limited to the time directly spent on such projects. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred.

Computer Software to be Sold, Leased or Otherwise Marketed: Development costs of computer software to be sold, leased or otherwise marketed as an integral part of a product are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established. Therefore, software development costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally most software development costs have been expensed as incurred.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

Goodwill and Indefinite-Lived Intangible Assets

The Company performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or an intangible asset with an indefinite life below its carrying value. Events or changes in circumstances that may trigger interim impairment reviews include significant changes in business climate, operating results, planned investments in the reporting unit, planned divestitures or an expectation the carrying amount may not be recoverable, among other factors. The Company may first assess qualitative factors to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not the fair value of the reporting unit is greater than its carrying amount, the two-step impairment test is unnecessary. The two-step impairment test first requires the Company to estimate the fair value of its reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and the Company proceeds to step two of the impairment analysis. In step two of the analysis, the Company measures and records an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value, if any.

Indefinite-lived intangible assets primarily consist of acquired trade names and trademarks. The Company may first perform a qualitative assessment to determine whether it is more likely than not an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the indefinite-lived intangible asset is not impaired, no quantitative fair value measurement is necessary. If a quantitative fair value measurement calculation is required for these intangible assets, the Company utilizes the relief-from-royalty method. This method assumes trade names and trademarks have value to the extent their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires the Company to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital.

Operating Leases

The Company leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets under operating leases. Operating lease agreements may contain rent escalation clauses, renewal options, rent holidays or certain landlord incentives, including tenant improvement allowances. Rent expense for non-cancelable operating leases with scheduled rent increases or landlord incentives are recognized on a straight-line basis over the lease term, beginning with the effective lease commencement date, which is generally the date in which the Company takes possession of or controls the physical use of the property. Certain leases also provide for contingent rent, which is generally determined as a percent of sales in excess of specified levels. A contingent rent liability is recognized together with the corresponding rent expense when specified levels have been achieved or when the Company determines that achieving the specified levels during the period is probable.

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 a three-level hierarchy established by the Financial Accounting Standards Board (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 observable quoted prices 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 or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs with 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 a majority of 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 its counterparties.

Level 1 investments include U.S. Treasury securities. Assets and liabilities included within Level 2 include commercial paper, U.S. Agency securities, money market funds, time deposits, corporate debt securities and derivative contracts. Level 3 investments are valued using internally developed models with unobservable inputs and are an immaterial portion of our portfolio.

The Company's fair value measurement process includes comparing fair values to another independent pricing vendor to ensure appropriate fair values are recorded.

Refer to Note 6 — Fair Value Measurements for additional information.

Foreign Currency Translation and Foreign Currency Transactions

Adjustments resulting from translating foreign functional currency financial statements into U.S. Dollars are included in the foreign currency translation adjustment, a component of *Accumulated other comprehensive income* in *Total shareholders' equity*.

The Company's global subsidiaries have various assets and liabilities, primarily receivables and payables, which are denominated in currencies other than their functional currency. These balance sheet items are subject to re-measurement, the impact of which is recorded in *Other expense (income), net*, within the Consolidated Statements of Income.

Accounting for Derivatives and Hedging Activities

The Company uses derivative financial instruments to reduce its exposure to changes in foreign currency exchange rates and interest rates. All derivatives are recorded at fair value on the Consolidated Balance Sheets and changes in the fair value of derivative financial instruments are either recognized in *Accumulated other comprehensive income* (a component of *Total shareholders' equity*), *Long-term debt* or *Net income* depending on the nature of the underlying exposure, whether the derivative is formally designated as a hedge and, if designated, the extent to which the hedge is effective. The Company classifies the cash flows at settlement from derivatives in the same category as the cash flows from the related hedged items. For undesignated hedges and designated cash flow hedges, this is primarily within the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. For designated net investment hedges, this is within the *Cash used by investing activities* component of the Consolidated Statements of Cash Flows. For the Company's fair value hedges, which are interest rate swaps used to mitigate the change in fair value of its fixed-rate debt attributable to changes in interest rates, the related cash flows from periodic interest payments are reflected within the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. Refer to Note 16 — Risk Management and Derivatives for additional information on the Company's risk management program and derivatives.

Stock-Based Compensation

The Company accounts for stock-based compensation by estimating the fair value of options and stock appreciation rights granted under the NIKE, Inc. Stock Incentive Plan and employees' purchase rights under the employee stock purchase plans (ESPPs) using the Black-Scholes option pricing model. The Company recognizes this fair value as *Cost of sales* or *Operating overhead expense*, as applicable, in the Consolidated Statements of Income over the vesting period using the straight-line method.

Refer to Note 11 — Common Stock and Stock-Based Compensation for additional information on the Company's stock-based compensation programs.

Income Taxes

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company records a valuation allowance to reduce deferred tax assets to the amount management believes is more likely than not to be realized.

The Company recognizes a tax benefit from uncertain tax positions in the financial statements only when it is more likely than not the position will be sustained upon examination by relevant tax authorities. The Company recognizes interest and penalties related to income tax matters in *Income tax expense*.

Refer to Note 9 — Income Taxes for further discussion.

Earnings Per Share

Basic earnings per common share is calculated by dividing *Net income* by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive stock options and awards.

Refer to Note 12 — Earnings Per Share for further discussion.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Adopted Accounting Standards

In February 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The standard allows for reclassification of stranded tax effects on items resulting from the Tax Cuts and Jobs Act (the “Tax Act”) from *Accumulated other comprehensive income* to *Retained earnings*. Tax effects unrelated to the Tax Act are released from *Accumulated other comprehensive income* using either the specific identification approach or the portfolio approach based on the nature of the underlying item.

The Company early adopted the ASU in the third quarter of fiscal 2018. As a result of the adoption, *Retained earnings* decreased by $17 million, with a corresponding increase to *Accumulated other comprehensive income* due to the reduction in the corporate tax rate from 35% to 21%. Refer to Note 9 — Income Taxes for additional information on the impact of the Tax Act.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which changes how companies account for certain aspects of share-based payment awards to employees. The Company adopted the ASU in the first quarter of fiscal 2018. The updated guidance requires excess tax benefits and deficiencies from share-based payment awards to be recorded in income tax expense in the income statement. Previously, excess tax benefits and deficiencies were recognized in shareholders’ equity on the balance sheet. This change is required to be applied prospectively. As a result of the adoption, during fiscal 2018, the Company recognized $230 million of excess tax benefits related to share-based payment awards in *Income tax expense* in the Consolidated Statements of Income.

Additionally, ASU 2016-09 modified the classification of certain share-based payment activities within the statement of cash flows, which the Company applied retrospectively. As a result, for fiscal 2017 and fiscal 2016, the Company reclassified cash inflows of $177 million and $281 million, respectively, related to excess tax benefits from share-based payment awards, from *Cash used by financing activities* to *Cash provided by operations*, and reclassified cash outflows of $29 million and $22 million, for the respective periods, related to tax payments for the net settlement of share-based payment awards, from *Cash provided by operations* to *Cash used by financing activities* within the Consolidated Statements of Cash Flows.

Recently Issued Accounting Standards

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The update to the standard is effective for the Company on June 1, 2019, with early adoption permitted in any interim period. The Company is currently evaluating the updated guidance, but does not expect the adoption to have a material impact on the Consolidated Financial Statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The updated guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company will adopt the standard on June 1, 2018, using a modified retrospective approach, with the cumulative effect of applying the new standard recognized in retained earnings at the date of adoption. Upon adoption, the Company will record a cumulative effect adjustment reducing *Retained earnings*, *Deferred income taxes and other assets*, and *Prepaid expenses and other current assets* by $507 million, $422 million and $45 million, respectively, and increasing *Deferred income taxes and other liabilities* by $40 million.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which replaces existing lease accounting 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 require the Company to continue to classify leases as either operating or financing, with classification affecting the pattern of expense recognition in the income statement. The Company will adopt the standard on June 1, 2019. The ASU is required to be applied using a modified retrospective approach at the beginning of the earliest period presented, with optional practical expedients. The Company continues to assess the effect the guidance will have on its existing accounting policies and the Consolidated Financial Statements and expects there will be an increase in assets and liabilities on the Consolidated Balance Sheets at adoption due to the recording of right-of-use assets and corresponding lease liabilities, which may be material. Refer to Note 15 — Commitments and Contingencies for information about the Company’s lease obligations.

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 May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which 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 reporting companies to disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company will adopt the standard on June 1, 2018 using a modified retrospective approach with the cumulative effect of initially applying the new standard recognized in retained earnings at the date of adoption.

While the Company does not expect the adoption of this standard to have a material impact on the Company's net *Revenues* in the Consolidated Statements of Income, revenues for certain wholesale transactions and substantially all digital commerce sales will be recognized upon shipment rather than upon delivery to the customer. Accordingly, the Company will record a cumulative effect adjustment increasing *Retained earnings* by approximately $23 million on June 1, 2018.

Additionally, provisions for post-invoice sales discounts, returns and miscellaneous claims will be recognized as accrued liabilities rather than as reductions to *Accounts receivable, net*; and the estimated cost of inventory associated with the provision for sales returns will be recorded within *Prepaid expenses and other current assets* on the Consolidated Balance Sheets. The remaining provisions of the standard are not expected to have a material impact on the Company's Consolidated Financial Statements.

NOTE 2 — Inventories

Inventory balances of $5,261 million and $5,055 million at May 31, 2018 and 2017, respectively, were substantially all finished goods.

NOTE 3 — Property, Plant and Equipment

Property, plant and equipment, net included the following:

	As of May 31,	
(In millions)	2018	2017
Land and improvements	$ 331	$ 285
Buildings	2,195	1,564
Machinery, equipment and internal-use software	4,230	3,867
Leasehold improvements	1,494	1,484
Construction in process	641	758
Total property, plant and equipment, gross	8,891	7,958
Less accumulated depreciation	4,437	3,969
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,454**	**$ 3,989**

Capitalized interest was not material for the years ended May 31, 2018, 2017 and 2016.

NOTE 4 — Identifiable Intangible Assets and Goodwill

Identifiable intangible assets, net consist of indefinite-lived trademarks, which are not subject to amortization, and acquired trademarks and other intangible assets, which are subject to amortization.

The following table summarizes the Company's *Identifiable intangible assets, net* balances as of May 31, 2018 and 2017:

	As of May 31,					
	2018			2017		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired trademarks and other	$ 22	$ 18	$ 4	$ 19	$ 17	$ 2
Indefinite-lived trademarks	281	—	281	281	—	281
INDENTIFIABLE INTANGIBLE ASSETS, NET	**$ 303**	**$ 18**	**$ 285**	**$ 300**	**$ 17**	**$ 283**

Goodwill was $154 million and $139 million at May 31, 2018 and 2017, respectively, of which $65 million was included in the Converse segment for both periods. The remaining amounts were included in Global Brand Divisions for segment reporting purposes. There were no accumulated impairment balances for goodwill as of either period end.

NOTE 5 — Accrued Liabilities

Accrued liabilities included the following:

(In millions)	As of May 31, 2018	2017
Compensation and benefits, excluding taxes	$ 897	$ 871
Endorsement compensation	425	396
Dividends payable	320	300
Import and logistics costs	268	257
Taxes other than income taxes payable	224	196
Fair value of derivatives	184	168
Advertising and marketing	140	125
Collateral received from counterparties to hedging instruments	23	—
Other[1]	788	698
TOTAL ACCRUED LIABILITIES	**$ 3,269**	**$ 3,011**

(1) Other consists of various accrued expenses with no individual item accounting for more than 5% of the total Accrued liabilities balance at May 31, 2018 and 2017.

NOTE 6 — Fair Value Measurements

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2018 and 2017, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. Refer to Note 1 — Summary of Significant Accounting Policies for additional detail regarding the Company's fair value measurement methodology.

	As of May 31, 2018			
(In millions)	Assets at Fair Value	Cash Equivalents	Short-term Investments	Other Long-term Assets
Cash	$ 415	$ 415	$ —	$ —
Level 1:				
U.S. Treasury securities	1,178	500	678	—
Level 2:				
Time deposits	925	907	18	—
U.S. Agency securities	102	100	2	—
Commercial paper and bonds	451	153	298	—
Money market funds	2,174	2,174	—	—
Total level 2	3,652	3,334	318	—
Level 3:				
Non-marketable preferred stock	11	—	—	11
TOTAL	**$ 5,256**	**$ 4,249**	**$ 996**	**$ 11**

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(In millions)	As of May 31, 2017 Assets at Fair Value	Cash Equivalents	Short-term Investments	Other Long-term Assets
Cash	$ 505	$ 505	$ —	$ —
Level 1:				
U.S. Treasury securities	1,545	159	1,386	—
Level 2:				
Time deposits	813	769	44	—
U.S. Agency securities	522	150	372	—
Commercial paper and bonds	820	251	569	—
Money market funds	1,974	1,974	—	—
Total level 2	4,129	3,144	985	—
Level 3:				
Non-marketable preferred stock	10	—	—	10
TOTAL	**$ 6,189**	**$ 3,808**	**$ 2,371**	**$ 10**

The Company elects to record the gross assets and liabilities of its derivative financial instruments on the 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 16 — Risk Management and Derivatives). Any amounts of cash collateral posted related to these instruments associated with the Company's credit-related contingent features are recorded in *Prepaid expenses and other current assets*, which would further offset against the Company's derivative liability balance (refer to Note 16 — 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 Consolidated Statements of Cash Flows. Any amounts of non-cash collateral received, such as securities, are not recorded on the Consolidated Balance Sheets pursuant to U.S. GAAP.

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis as of May 31, 2018 and 2017, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

	As of May 31, 2018					
	Derivative Assets			Derivative Liabilities		
(In millions)	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[1]	$ 389	$ 237	$ 152	$ 182	$ 182	$ —
Embedded derivatives	11	3	8	8	2	6
TOTAL	**$ 400**	**$ 240**	**$ 160**	**$ 190**	**$ 184**	**$ 6**

(1) *If the foreign exchange derivative instruments had been netted in the Consolidated Balance Sheets, the asset and liability positions each would have been reduced by $182 million as of May 31, 2018. As of that date, the Company had received $23 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 May 31, 2018.*

	As of May 31, 2017					
	Derivative Assets			Derivative Liabilities		
(In millions)	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[1]	$ 231	$ 216	$ 15	$ 246	$ 166	$ 80
Embedded derivatives	10	1	9	8	2	6
TOTAL	**$ 241**	**$ 217**	**$ 24**	**$ 254**	**$ 168**	**$ 86**

(1) *If the foreign exchange derivative instruments had been netted in the Consolidated Balance Sheets, the asset and liability positions each would have been reduced by $187 million as of May 31, 2017. As of that date, no amount of cash collateral had been received or posted on the derivative asset and liability balance related to these foreign exchange derivative instruments.*

Available-for-sale securities comprise investments in U.S. Treasury and Agency securities, time deposits, 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). As of May 31, 2018, the Company held $960 million of available-for-sale securities with maturity dates within one year and $36 million with maturity dates over one year and less than five years within *Short-term investments* on the Consolidated Balance Sheets. The gross realized gains and losses on sales of available-for-sale securities were immaterial for the fiscal years ended May 31, 2018 and 2017. Unrealized gains and losses on available-for-sale securities included in *Accumulated other comprehensive income* were immaterial as of May 31, 2018 and 2017. The Company regularly reviews its available-for-sale securities for other-than-temporary impairment. For the years ended May 31, 2018 and 2017, the Company did not consider its securities to be other-than-temporarily impaired, and accordingly, did not recognize any impairment losses.

Included in *Interest expense (income), net* was interest income related to the Company's available-for-sale securities of $70 million, $27 million and $12 million for the years ended May 31, 2018, 2017 and 2016, 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 years ended May 31, 2018 and 2017.

No transfers among the levels within the fair value hierarchy occurred during the years ended May 31, 2018 or 2017.

For additional information related to the Company's derivative financial instruments, refer to Note 16 — Risk Management and Derivatives. For fair value information regarding *Notes Payable* and *Long-term debt*, refer to Note 7 — Short-Term Borrowings and Credit Lines and Note 8 — Long-Term Debt, respectively. The carrying amounts of other current financial assets and other current financial liabilities approximate fair value.

As of May 31, 2018 and 2017, assets or liabilities required to be measured at fair value on a non-recurring basis were immaterial.

NOTE 7 — Short-Term Borrowings and Credit Lines

Notes payable and interest-bearing accounts payable to Sojitz Corporation of America ("Sojitz America") as of May 31, 2018 and 2017 are summarized below:

	As of May 31,			
	2018		2017	
(Dollars in millions)	**Borrowings**	**Interest Rate**	**Borrowings**	**Interest Rate**
Notes payable:				
Commercial paper	$ 325	1.77 %	$ 325	0.86 %
U.S. operations	1	0.00 %(1)	—	0.00 %(1)
Non-U.S. operations	10	18.11 %(1)	—	0.00 %(1)
TOTAL NOTES PAYABLE	**$ 336**		**$ 325**	
Interest-bearing accounts payable:				
Sojitz America	$ 61	2.82 %	$ 51	1.78 %

(1) Weighted average interest rate includes non-interest bearing overdrafts.

The carrying amounts reflected in the Consolidated Balance Sheets for *Notes payable* approximate fair value.

The Company purchases through Sojitz America certain NIKE Brand products it acquires from non-U.S. suppliers. These purchases are for products sold in certain countries in the Company's Asia Pacific & Latin America geographic operating segment and Canada, excluding products produced and sold in the same country. Accounts payable to Sojitz America are generally due up to 60 days after shipment of goods from the foreign port. The interest rate on such accounts payable is the 60-day London Interbank Offered Rate ("LIBOR") as of the beginning of the month of the invoice date, plus 0.75%.

As of May 31, 2018 and 2017, the Company had $325 million outstanding under its $2 billion commercial paper program at weighted average interest rates of 1.77% and 0.86%, respectively.

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 the committed credit facility, the Company must maintain certain financial ratios, among other things, with which the Company was in compliance at May 31, 2018. No amounts were outstanding under the committed credit facility as of May 31, 2018 or 2017.

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NOTE 8 — Long-Term Debt

Long-term debt, net of unamortized premiums, discounts and debt issuance costs, comprises the following:

Scheduled Maturity (Dollars and Yen in millions)	Original Principal		Interest Rate	Interest Payments	Book Value Outstanding as of May 31, 2018		2017	
Corporate Bond Payables:(1)(2)								
May 1, 2023	$	500	2.25 %	Semi-Annually	$	498	$	497
November 1, 2026	$	1,000	2.38 %	Semi-Annually		994		993
May 1, 2043	$	500	3.63 %	Semi-Annually		495		495
November 1, 2045	$	1,000	3.88 %	Semi-Annually		982		981
November 1, 2046	$	500	3.38 %	Semi-Annually		490		490
Japanese Yen Notes:(3)								
August 20, 2001 through November 20, 2020	¥	9,000	2.60 %	Quarterly		10		14
August 20, 2001 through November 20, 2020	¥	4,000	2.00 %	Quarterly		5		7
Total						3,474		3,477
Less current maturities						6		6
TOTAL LONG-TERM DEBT					**$**	**3,468**	**$**	**3,471**

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

(2) The bonds are redeemable at the Company's option up to three months prior to the scheduled maturity date for the bonds maturing in 2023 and 2026, and up to six months prior to the scheduled maturity date for the bonds maturing in 2043, 2045 and 2046, 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. Within three and six months to scheduled maturity, 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) NIKE Logistics YK assumed a total of ¥13.0 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 years ending May 31, 2019 through 2023 are $6 million, $6 million, $3 million, $0 million and $500 million, respectively, at face value.

The Company's *Long-term debt* is recorded at adjusted cost, net of unamortized premiums, discounts and debt issuance costs. 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 $3,294 million at May 31, 2018 and $3,401 million at May 31, 2017.

NOTE 9 — Income Taxes

Income before income taxes is as follows:

(In millions)	Year Ended May 31, 2018		2017		2016	
Income before income taxes:						
United States	$	744	$	1,240	$	956
Foreign		3,581		3,646		3,667
TOTAL INCOME BEFORE INCOME TAXES	**$**	**4,325**	**$**	**4,886**	**$**	**4,623**

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The provision for income taxes is as follows:

	Year Ended May 31,		
(In millions)	**2018**	**2017**	**2016**
Current:			
United States			
Federal	$ 1,167	$ 398	$ 304
State	45	82	71
Foreign	533	439	568
Total	1,745	919	943
Deferred:			
United States			
Federal	595	(279)	(57)
State	25	(9)	(16)
Foreign	27	15	(7)
Total	647	(273)	(80)
TOTAL INCOME TAX EXPENSE	**$ 2,392**	**$ 646**	**$ 863**

On December 22, 2017, the United States enacted the Tax Act, which significantly changes previous U.S. tax laws, including provisions for a one-time transition tax on deemed repatriation of undistributed foreign earnings, a reduction in the corporate tax rate from 35% to 21%, as well as other changes. Under U.S. GAAP, accounting for the effect of tax legislation is required in the period of enactment. For fiscal 2018, the change in the corporate tax rate, effective January 1, 2018, results in a blended U.S. federal statutory rate for the Company of approximately 29%. The Tax Act also includes provisions not yet effective for the Company, including a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries, which will be effective for the Company beginning June 1, 2018. In accordance with U.S. GAAP, the Company has made an accounting policy election to treat taxes due under the GILTI provision as a current period expense.

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate is as follows:

	Year Ended May 31,		
	2018	**2017**	**2016**
Federal income tax rate	29.2 %	35.0 %	35.0 %
State taxes, net of federal benefit	1.2 %	1.1 %	1.1 %
Foreign earnings	-18.4 %	-20.7 %	-18.2 %
Transition tax related to the Tax Act	43.3 %	— %	— %
Remeasurement of deferred tax assets and liabilities related to the Tax Act	3.7 %	— %	— %
Excess tax benefits from share-based compensation	-5.3 %	— %	— %
Resolution of a U.S. tax matter	— %	-3.2 %	— %
Other, net	1.6 %	1.0 %	0.8 %
EFFECTIVE INCOME TAX RATE	**55.3 %**	**13.2 %**	**18.7 %**

The effective tax rate for the year ended May 31, 2018 was higher than the effective tax rate for the year ended May 31, 2017 primarily due to the enactment of the Tax Act, which included provisional expense of $1,875 million for the one-time transition tax on the deemed repatriation of undistributed foreign earnings, and $158 million due to the remeasurement of deferred tax assets and liabilities. The remaining provisions of the Tax Act, which were a net benefit to the effective tax rate, did not have a material impact on the Company's Consolidated Financial Statements during fiscal 2018. Additionally, the increase in the effective tax rate was partially offset by the tax benefit from share-based compensation in the current period as a result of the adoption of ASU 2016-09 in the first quarter of fiscal 2018. During the years ended May 31, 2017 and 2016, income tax benefits of $177 million and $281 million, respectively, attributable to employee share-based compensation were allocated to *Total shareholders' equity.* As a result of the adoption of ASU 2016-09, beginning in fiscal 2018, income tax benefits from share-based compensation are reported in the Consolidated Statements of Income.

The effective tax rate for the year ended May 31, 2017 was 550 basis points lower than the effective tax rate for the year ended May 31, 2016 primarily due to a one-time benefit in the first quarter of the fiscal year related to the resolution with the U.S. Internal Revenue Service (IRS) of a foreign tax credit matter and a decrease in foreign earnings taxed in the United States.

In accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118 ("SAB 118"), the provisional amounts recorded represent reasonable estimates of the effects of the Tax Act for which the analysis is not yet complete. As the Company completes its analysis of the Tax Act, including collecting, preparing and analyzing necessary information, performing and refining calculations and obtaining additional guidance from the IRS, U.S. Treasury Department, FASB or other standard setting and regulatory bodies on the Tax Act, it may record adjustments to the provisional amounts, which may be material. In accordance with SAB 118, the Company's accounting for the tax effects of the Tax Act will be completed during the measurement period, which should not extend beyond one year from the enactment date. At May 31, 2018, there were no provisions for which the Company was unable to record a reasonable estimate of the impact.

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Transition Tax

During the third quarter of fiscal 2018, the Company recorded a provisional expense of $2,010 million related to the one-time transition tax on the deemed repatriation of undistributed foreign earnings. During the fourth quarter of fiscal 2018, as a result of further analysis of the provisions of the Tax Act and additional guidance, this provisional tax expense decreased by $135 million. The transition tax is based on the Company's estimated total post-1986 undistributed foreign earnings at a tax rate of 15.5% for foreign cash and certain other specified assets, and 8% on the remaining earnings. The Company expects to pay the transition tax in installments over an eight-year period. Accordingly, the non-current portion of the provisional expense for the transition tax of $1,078 million, net of applicable foreign tax credits the Company expects to utilize, has been recorded in *Deferred income taxes and other liabilities* on the Consolidated Balance Sheets.

Impact of Changes in the Tax Rate

As a result of the reduction in the corporate tax rate from 35% to 21%, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to be realized. The total provisional expense recorded during the period for the remeasurement of deferred tax assets and liabilities was $158 million.

Deferred tax assets and liabilities comprise the following:

	As of May 31,	
(In millions)	**2018**	**2017**
Deferred tax assets:		
Inventories	$ 73	$ 90
Sales return reserves	104	130
Deferred compensation	250	348
Stock-based compensation	135	225
Reserves and accrued liabilities	102	88
Net operating loss carry-forwards	88	84
Foreign tax credit carry-forwards	—	208
Undistributed earnings of foreign subsidiaries	—	173
Other	106	106
Total deferred tax assets	858	1,452
Valuation allowance	(95)	(82)
Total deferred tax assets after valuation allowance	763	1,370
Deferred tax liabilities:		
Foreign withholding tax on undistributed earnings of foreign subsidiaries	(155)	—
Property, plant and equipment	(167)	(254)
Intangibles	(77)	(90)
Other	(26)	(2)
Total deferred tax liabilities	(425)	(346)
NET DEFERRED TAX ASSET	**$ 338**	**$ 1,024**

The following is a reconciliation of the changes in the gross balance of unrecognized tax benefits:

	As of May 31,		
(In millions)	**2018**	**2017**	**2016**
Unrecognized tax benefits, beginning of the period	$ 461	$ 506	$ 438
Gross increases related to prior period tax positions	19	31	49
Gross decreases related to prior period tax positions	(12)	(163)	(20)
Gross increases related to current period tax positions	249	115	81
Settlements	—	(12)	(13)
Lapse of statute of limitations	(20)	(21)	(17)
Changes due to currency translation	1	5	(12)
UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD	**$ 698**	**$ 461**	**$ 506**

As of May 31, 2018, total gross unrecognized tax benefits, excluding related interest and penalties, were $698 million, $478 million of which would affect the Company's effective tax rate if recognized in future periods.

The Company recognizes interest and penalties related to income tax matters in *Income tax expense*. The liability for payment of interest and penalties decreased by $14 million during the year ended May 31, 2018, decreased by $38 million during the year ended May 31, 2017 and increased by $45 million during the year ended May 31, 2016. As of May 31, 2018 and 2017, accrued interest and penalties related to uncertain tax positions were $157 million and $171 million, respectively (excluding federal benefit).

The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. The Company has closed all U.S. federal income tax matters through fiscal 2014, with the exception of certain transfer pricing adjustments. The Company is currently under audit by the IRS for fiscal years 2015 and 2016.

The Company's major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar 2007 and fiscal 2012, 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 $163 million within the next 12 months.

The Company historically provided for U.S. income taxes on the undistributed earnings of foreign subsidiaries unless they were considered indefinitely reinvested outside the United States. At May 31, 2017, the indefinitely reinvested earnings in foreign subsidiaries upon which United States income taxes had not been provided were approximately $12.2 billion. These undistributed foreign earnings were subject to the U.S. one-time mandatory transition tax and are eligible to be repatriated to the U.S. without additional U.S. tax under the Tax Act. The Company has reevaluated its historic indefinite reinvestment assertion as a result of the enactment of the Tax Act and determined that any historical or future undistributed earnings of foreign subsidiaries are no longer considered to be indefinitely reinvested.

A portion of the Company's foreign operations are benefiting from a tax holiday, which is set to expire in 2021. This tax holiday may be extended when certain conditions are met or may be terminated early if certain conditions are not met. The tax benefit attributable to this tax holiday was $126 million, $187 million and $173 million for the fiscal years ended May 31, 2018, 2017 and 2016, respectively. The benefit of the tax holiday on diluted earnings per common share was $0.08, $0.11 and $0.10 for the fiscal years ended May 31, 2018, 2017 and 2016, respectively.

Deferred tax assets at May 31, 2018 and 2017 were reduced by a valuation allowance primarily relating to tax benefits of certain entities with operating losses. There was a $13 million net increase in the valuation allowance for the year ended May 31, 2018, compared to a $30 million net increase for the year ended May 31, 2017 and $43 million net increase for the year ended May 31, 2016.

The Company no longer has recorded deferred tax assets for foreign tax credit carry-forwards; the $208 million recorded at May 31, 2017 was fully utilized to offset the impacts of transition tax.

The Company has available domestic and foreign loss carry-forwards of $289 million at May 31, 2018. Such losses will expire as follows:

	Year Ending May 31,						
(In millions)	**2019**	**2020**	**2021**	**2022**	**2023-2039**	**Indefinite**	**Total**
Net operating losses	$ 1	$ 5	$ 2	$ 1	$ 91	$ 189	$ 289

NOTE 10 — Redeemable Preferred Stock

Sojitz America is the sole owner of the Company's authorized redeemable preferred stock, $1 par value, which is redeemable at the option of Sojitz America or the Company at par value aggregating $0.3 million. A cumulative dividend of $0.10 per share is payable annually on May 31 and no dividends may be declared or paid on the common stock of the Company unless dividends on the redeemable preferred stock have been declared and paid in full. There have been no changes in the redeemable preferred stock in the three years ended May 31, 2018, 2017 and 2016. As the holder of the redeemable preferred stock, Sojitz America does not have general voting rights, but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries, on merger, consolidation, liquidation or dissolution of the Company, or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States. The redeemable preferred stock has been fully issued to Sojitz America and is not blank check preferred stock. The Company's articles of incorporation do not permit the issuance of additional preferred stock.

NOTE 11 — 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 holders of Class A and Class B Common Stock. From time to time, the Company's Board of Directors authorizes share repurchase programs for the repurchase of Class B Common Stock. The value of repurchased shares is deducted from *Total shareholders' equity* through allocation to *Capital in excess of stated value* and *Retained earnings*.

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 equity 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 ten years from the date of grant.

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The following table summarizes the Company's total stock-based compensation expense recognized in *Cost of sales* or *Operating overhead expense*, as applicable:

	Year Ended May 31,		
(In millions)	2018	2017	2016
Stock options[(1)]	$ 149	$ 145	$ 171
ESPPs	34	36	31
Restricted stock	35	34	34
TOTAL STOCK-BASED COMPENSATION EXPENSE	**$ 218**	**$ 215**	**$ 236**

(1) *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 option expense was $18 million, $14 million and $30 million for the years ended May 31, 2018, 2017 and 2016, respectively.*

As of May 31, 2018, the Company had $195 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in *Cost of sales* or *Operating overhead expense*, as applicable, over a weighted average remaining period of 2.0 years.

The weighted average fair value per share of the options granted during the years ended May 31, 2018, 2017 and 2016, computed as of the grant date using the Black-Scholes pricing model, was $9.82, $9.38 and $12.66, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Year Ended May 31,		
	2018	2017	2016
Dividend yield	1.2 %	1.1 %	1.0 %
Expected volatility	16.4 %	17.4 %	23.6 %
Weighted average expected life (in years)	6.0	6.0	5.8
Risk-free interest rate	2.0 %	1.3 %	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.

The following summarizes the stock option transactions under the plan discussed above:

	Shares[(1)]	Weighted Average Option Price
	(In millions)	
Options outstanding May 31, 2015	116.2	$ 23.50
Exercised	(22.5)	17.75
Forfeited	(2.3)	39.96
Granted	20.6	56.41
Options outstanding May 31, 2016	112.0	30.38
Exercised	(17.1)	20.42
Forfeited	(2.3)	49.47
Granted	12.2	57.81
Options outstanding May 31, 2017	104.8	34.79
Exercised	(24.1)	25.07
Forfeited	(4.3)	55.31
Granted	16.8	59.08
Options outstanding May 31, 2018	93.2	$ 40.73
Options exercisable at May 31,		
2016	66.5	$ 21.48
2017	67.9	26.03
2018	58.5	31.60

(1) *Includes stock appreciation rights transactions.*

The weighted average contractual life remaining for options outstanding and options exercisable at May 31, 2018 was 5.7 years and 4.4 years, respectively. The aggregate intrinsic value for options outstanding and exercisable at May 31, 2018 was $2,896 million and $2,352 million, respectively. The aggregate intrinsic value was the amount by which the market value of the underlying stock exceeded the exercise price of the options. The total intrinsic value of the options exercised during the years ended May 31, 2018, 2017 and 2016 was $889 million, $594 million and $946 million, respectively.

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). Subject to the annual statutory limit, 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. Employees purchased 3.1 million, 3.1 million and 2.5 million shares during each of the three years ended May 31, 2018, 2017 and 2016, respectively.

From time to time, the Company grants restricted stock and restricted stock units to key employees under the Stock Incentive Plan. The number of shares underlying such awards granted to employees during the years ended May 31, 2018, 2017 and 2016 were 1.8 million, 0.4 million and 1.0 million, respectively, with weighted average values per share of $62.51, $57.59 and $54.87, respectively. Recipients of restricted stock are entitled to cash dividends and to vote their respective shares throughout the period of restriction. Recipients of restricted stock units are entitled to dividend equivalent cash payments upon vesting. The value of all grants of restricted stock and restricted stock units was established by the market price on the date of grant. During the years ended May 31, 2018, 2017 and 2016, the aggregate fair value of restricted stock and restricted stock units vested was $113 million, $60 million and $49 million, respectively, determined as of the date of vesting. As of May 31, 2018, the Company had $104 million of unrecognized compensation costs from restricted stock and restricted stock units to be recognized in *Operating overhead expense* over a weighted average period of 2.4 years.

NOTE 12 — 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, to purchase an additional 42.9 million, 30.5 million and 0.2 million shares of common stock outstanding for the years ended May 31, 2018, 2017 and 2016, respectively, because the options were anti-dilutive.

	Year Ended May 31,		
(In millions, except per share data)	**2018**	**2017**	**2016**
Determination of shares:			
Weighted average common shares outstanding	1,623.8	1,657.8	1,697.9
Assumed conversion of dilutive stock options and awards	35.3	34.2	44.6
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**1,659.1**	**1,692.0**	**1,742.5**
Earnings per common share:			
Basic	$ 1.19	$ 2.56	$ 2.21
Diluted	$ 1.17	$ 2.51	$ 2.16

NOTE 13 — Benefit Plans

The Company has a qualified 401(k) Savings and Profit Sharing Plan, in which all U.S. employees are able to participate. The Company matches a portion of employee contributions to the savings plan. Company contributions to the savings plan were $80 million, $75 million and $72 million and included in *Cost of sales* or *Operating overhead expense*, as applicable, for the years ended May 31, 2018, 2017 and 2016, respectively. The terms of the plan also allow for annual discretionary profit sharing contributions, as determined by the Board of Directors, to the accounts of eligible U.S. employees who work at least 1,000 hours in a year. Profit sharing contributions of $59 million, $68 million and $64 million were made to the plan and included in *Cost of sales* or *Operating overhead expense*, as applicable, for the years ended May 31, 2018, 2017 and 2016, respectively.

The Company also has a Long-Term Incentive Plan (LTIP) adopted by the Board of Directors and approved by shareholders in September 1997 and later amended and approved in fiscal 2007 and fiscal 2012. The Company recognized $33 million, $21 million and $85 million of *Operating overhead expense* related to cash awards under the LTIP during the years ended May 31, 2018, 2017 and 2016, respectively.

The Company allows certain highly compensated employees and non-employee directors of the Company to defer compensation under a nonqualified deferred compensation plan. Deferred compensation plan liabilities were $641 million and $569 million at May 31, 2018 and 2017, respectively, and primarily classified as non-current in *Deferred income taxes and other liabilities*.

The Company has pension plans in various countries worldwide. The pension plans are only available to local employees and are generally government mandated. The liability related to the unfunded pension liabilities of the plans was $70 million and $107 million at May 31, 2018 and 2017, respectively, and primarily classified as non-current in *Deferred income taxes and other liabilities*.

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NOTE 14 — Accumulated Other Comprehensive Income

The changes in *Accumulated other comprehensive income*, net of tax, were as follows:

(In millions)	Foreign Currency Translation Adjustment[1]	Cash Flow Hedges	Net Investment Hedges[1]	Other	Total
Balance at May 31, 2017	**$ (191)**	**$ (52)**	**$ 115**	**$ (85)**	**$ (213)**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications[2]	(6)	(52)	—	2	(56)
Reclassifications to net income of previously deferred (gains) losses[3]	—	128	—	32	160
Total other comprehensive income (loss)	(6)	76	—	34	104
Reclassifications to retained earnings in accordance with ASU 2018-02[4]	24	(7)	—	—	17
Balance at May 31, 2018	**$ (173)**	**$ 17**	**$ 115**	**$ (51)**	**$ (92)**

(1) *The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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 $(24) million, $(3) million, $0 million, $(4) million and $(31) million, respectively.*

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

(4) *Refer to Note 1 — Summary of Significant Accounting Policies for additional information on the adoption of ASU 2018-02 during the third quarter of fiscal 2018.*

(In millions)	Foreign Currency Translation Adjustment[1]	Cash Flow Hedges	Net Investment Hedges[1]	Other	Total
Balance at May 31, 2016	**$ (207)**	**$ 463**	**$ 115**	**$ (53)**	**$ 318**
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications[2]	15	118	—	(14)	119
Reclassifications to net income of previously deferred (gains) losses[3]	1	(633)	—	(18)	(650)
Total other comprehensive income (loss)	16	(515)	—	(32)	(531)
Balance at May 31, 2017	**$ (191)**	**$ (52)**	**$ 115**	**$ (85)**	**$ (213)**

(1) *The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an 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, $3 million and $27 million, respectively.*

(3) *Net of tax (benefit) expense of $0 million, $(3) million, $0 million, $(3) million and $(6) million, respectively.*

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

(In millions)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income — Year Ended May 31, 2018	2017	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income
Gains (losses) on foreign currency translation adjustment	$ —	$ (1)	Other expense (income), net
Total before tax	—	(1)	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	**—**	**(1)**	
Gains (losses) on cash flow hedges:			
Foreign exchange forwards and options	34	96	Revenues
Foreign exchange forwards and options	(90)	339	Cost of sales
Foreign exchange forwards and options	1	—	Total selling and administrative expense
Foreign exchange forwards and options	(69)	199	Other expense (income), net
Interest rate swaps	(7)	(4)	Interest expense (income), net
Total before tax	(131)	630	
Tax (expense) benefit	3	3	
Gain (loss) net of tax	**(128)**	**633**	
Gains (losses) on other	(32)	15	Other expense (income), net
Total before tax	(32)	15	
Tax (expense) benefit	—	3	
Gain (loss) net of tax	**(32)**	**18**	
Total net gain (loss) reclassified for the period	**$ (160)**	**$ 650**	

Refer to Note 16 — Risk Management and Derivatives for more information on the Company's risk management program and derivatives.

NOTE 15 — Commitments and Contingencies

The Company leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets under operating leases expiring from 1 to 17 years after May 31, 2018. Rent expense, excluding executory costs, was $820 million, $731 million and $661 million for the years ended May 31, 2018, 2017 and 2016, respectively. Amounts of minimum future annual commitments under non-cancelable operating and capital leases are as follows (in millions):

	2019	2020	2021	2022	2023	Thereafter	Total
Operating leases	$ 589	$ 523	$ 472	$ 412	$ 361	$ 1,608	$ 3,965
Capital leases and other financing obligations[(1)]	$ 44	$ 37	$ 40	$ 38	$ 36	$ 229	$ 424

(1) Capital leases and other financing obligations include payments related to build-to-suit lease arrangements.

As of May 31, 2018 and 2017, the Company had letters of credit outstanding totaling $165 million and $152 million, respectively. These letters of credit were generally issued for the purchase of inventory and guarantees of the Company's performance under certain self-insurance and other programs.

In connection with various contracts and agreements, the Company provides routine indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where the Company is acting as the guarantor. Currently, the Company has several such agreements in place. However, based on the Company's historical experience and the estimated probability of future loss, the Company has determined the fair value of such indemnification is not material to the Company's financial position or results of operations.

In the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. While the Company cannot predict the outcome of its pending legal matters with certainty, the Company does not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on the Company's results of operations, financial position or cash flows.

NOTE 16 — 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.

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The majority of derivatives outstanding as of May 31, 2018 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro and Japanese Yen/U.S. Dollar currency pairs. All derivatives are recognized on the Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date.

The following table presents the fair values of derivative instruments included within the Consolidated Balance Sheets as of May 31, 2018 and 2017:

	Derivative Assets			**Derivative Liabilities**		
(In millions)	**Balance Sheet Location**	**2018**	**2017**	**Balance Sheet Location**	**2018**	**2017**
Derivatives formally designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	$ 118	$ 113	Accrued liabilities	$ 156	$ 59
Foreign exchange forwards and options	Deferred income taxes and other assets	152	13	Deferred income taxes and other liabilities	—	73
Total derivatives formally designated as hedging instruments		270	126		156	132
Derivatives not designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	119	103	Accrued liabilities	26	107
Embedded derivatives	Prepaid expenses and other current assets	3	1	Accrued liabilities	2	2
Foreign exchange forwards and options	Deferred income taxes and other assets	—	2	Deferred income taxes and other liabilities	—	7
Embedded derivatives	Deferred income taxes and other assets	8	9	Deferred income taxes and other liabilities	6	6
Total derivatives not designated as hedging instruments		130	115		34	122
TOTAL DERIVATIVES		**$ 400**	**$ 241**		**$ 190**	**$ 254**

The following tables present the amounts affecting the Consolidated Statements of Income for the years ended May 31, 2018, 2017 and 2016:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives[(1)]			**Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income[(1)]**			
	Year Ended May 31,			**Location of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income**	**Year Ended May 31,**		
(In millions)	**2018**	**2017**	**2016**		**2018**	**2017**	**2016**
Derivatives designated as cash flow hedges:							
Foreign exchange forwards and options	$ 19	$ 72	$ 90	Revenues	$ 34	$ 96	$ (88)
Foreign exchange forwards and options	(50)	43	(57)	Cost of sales	(90)	339	586
Foreign exchange forwards and options	1	(4)	—	Total selling and administrative expense	1	—	—
Foreign exchange forwards and options	(19)	37	(25)	Other expense (income), net	(69)	199	219
Interest rate swaps[(2)]	—	(54)	(83)	Interest expense (income), net	(7)	(4)	—
Total designated cash flow hedges	$ (49)	$ 94	$ (75)		$ (131)	$ 630	$ 717

(1) *For the years ended May 31, 2018, 2017 and 2016, the amounts recorded in Other expense (income), 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.*

(2)

Gains and losses associated with terminated interest rate swaps, which were previously designated as cash flow hedges and recorded in Accumulated other comprehensive income, will be released through Interest expense (income), net over the term of the issued debt.

(In millions)	Amount of Gain (Loss) Recognized in Income on Derivatives Year Ended May 31, 2018	2017	2016	Location of Gain (Loss) Recognized in Income on Derivatives
Derivatives designated as fair value hedges:				
Interest rate swaps[1]	$ —	$ —	$ 2	Interest expense (income), net
Derivatives not designated as hedging instruments:				
Foreign exchange forwards and options	(57)	(44)	(68)	Other expense (income), net
Embedded derivatives	$ (4)	$ (2)	$ (2)	Other expense (income), net

(1) 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 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.

Cash Flow Hedges

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. Effective hedge results are classified within the Consolidated Statements of Income in the same manner as the underlying exposure. The ineffective portion of the unrealized gains and losses on these contracts, if any, is recorded immediately in earnings. Derivative instruments designated as cash flow hedges must be discontinued when it is no longer probable the forecasted hedged transaction will occur in the initially identified time period. The gains and losses associated with discontinued derivative instruments in *Accumulated other comprehensive income* will be recognized immediately in *Other expense (income), net*, if it is probable the forecasted hedged transaction will not occur by the end of the initially identified time period or within an additional two-month period thereafter. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will account for the derivative as an undesignated instrument as discussed below.

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 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 products in two ways: (1) Certain NIKE entities purchase product from the NIKE Trading Company (NTC), a wholly owned sourcing hub that buys NIKE branded products 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. NTC sales to a NIKE entity with a different functional currency results in 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 $12.2 billion as of May 31, 2018.

As of May 31, 2018, $96 million of deferred net gains (net of tax) on both outstanding and matured derivatives in *Accumulated other comprehensive income* are 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 currently outstanding mature. As of May 31, 2018, the maximum term over which the Company is hedging exposures to the variability of cash flows for its forecasted transactions was 24 months.

Fair Value Hedges

The Company has, in the past, been 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 U.S. GAAP. 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 Company recorded no ineffectiveness from its interest rate swaps designated as fair value hedges for the years ended May 31, 2018, 2017 or 2016. The Company had no interest rate swaps designated as fair value hedges as of May 31, 2018.

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 ineffective portion of the unrealized gains and losses on these contracts, if any, are recorded immediately in earnings. The Company recorded no ineffectiveness from net investment hedges for the years ended May 31, 2018, 2017 or 2016. The Company had no outstanding net investment hedges as of May 31, 2018.

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 Consolidated Balance Sheets and/or the embedded derivative contracts. These undesignated instruments are recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in *Other expense (income), net*, together with the re-measurement gain or loss from the hedged balance sheet position and/or embedded derivative contract. The total notional amount of outstanding undesignated derivative instruments was $6.1 billion as of May 31, 2018.

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. In addition, embedded derivative contracts are created when the Company enters 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. 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 Consolidated Balance Sheets with their corresponding change in fair value recognized in *Other expense (income), net*, through the date the foreign currency fluctuations cease to exist.

At May 31, 2018, the total notional amount of all embedded derivatives outstanding was approximately $260 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 May 31, 2018, the Company was in compliance with all credit risk-related contingent features and had no derivative instruments with credit risk-related contingent features in a net liability position. Accordingly, the Company was not required to post any collateral as a result of these contingent features. Further, as of May 31, 2018, the Company had received $23 million of cash collateral from various counterparties to its derivative contracts (refer to Note 6 — Fair Value Measurements). The Company considers the impact of the risk of counterparty default to be immaterial.

NOTE 17 — Operating Segments and Related Information

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. In June 2017, NIKE, Inc. announced a new company alignment designed to allow NIKE to better serve the consumer personally, at scale. As a result of this organizational realignment, the Company's reportable operating segments for the NIKE Brand are: North America; Europe, Middle East & Africa; Greater China; and Asia Pacific & Latin America, and include results for the NIKE, Jordan and Hurley brands. Certain prior year amounts have been reclassified to conform to fiscal 2018 presentation. This includes reclassified operating segment data to reflect the changes in the Company's operating structure, which became effective June 1, 2017. These changes had no impact on previously reported consolidated statements of income, balance sheets, statements of cash flows or statements of shareholders' equity.

The Company's NIKE Direct operations are managed within each NIKE Brand 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 represents 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 Consolidated Statements of Income.

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 to Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) 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 the 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, therefore, are provided below. Additions to long-lived assets as presented in the following table represent capital expenditures.

(In millions)	Year Ended May 31, 2018	2017	2016
REVENUES			
North America	$ 14,855	$ 15,216	$ 14,764
Europe, Middle East & Africa	9,242	7,970	7,568
Greater China	5,134	4,237	3,785
Asia Pacific & Latin America	5,166	4,737	4,317
Global Brand Divisions	88	73	73
Total NIKE Brand	34,485	32,233	30,507
Converse	1,886	2,042	1,955
Corporate	26	75	(86)
TOTAL NIKE, INC. REVENUES	**$ 36,397**	**$ 34,350**	**$ 32,376**
EARNINGS BEFORE INTEREST AND TAXES			
North America	$ 3,600	$ 3,875	$ 3,763
Europe, Middle East & Africa	1,587	1,507	1,787
Greater China	1,807	1,507	1,372
Asia Pacific & Latin America	1,189	980	1,002
Global Brand Divisions	(2,658)	(2,677)	(2,596)
Total NIKE Brand	5,525	5,192	5,328
Converse	310	477	487
Corporate	(1,456)	(724)	(1,173)
Total NIKE, Inc. Earnings Before Interest and Taxes	4,379	4,945	4,642
Interest expense (income), net	54	59	19
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	**$ 4,325**	**$ 4,886**	**$ 4,623**
ADDITIONS TO LONG-LIVED ASSETS			
North America	$ 196	$ 223	$ 242
Europe, Middle East & Africa	240	173	234
Greater China	76	51	44
Asia Pacific & Latin America	49	59	62
Global Brand Divisions	286	278	258
Total NIKE Brand	847	784	840
Converse	22	30	39
Corporate	325	387	312
TOTAL ADDITIONS TO LONG-LIVED ASSETS	**$ 1,194**	**$ 1,201**	**$ 1,191**
DEPRECIATION			
North America	$ 160	$ 140	$ 133
Europe, Middle East & Africa	116	106	85
Greater China	56	54	48
Asia Pacific & Latin America	55	54	42
Global Brand Divisions	217	233	230
Total NIKE Brand	604	587	538
Converse	33	28	27
Corporate	110	91	84
TOTAL DEPRECIATION	**$ 747**	**$ 706**	**$ 649**

(In millions)	As of May 31, 2018	2017
ACCOUNTS RECEIVABLE, NET		
North America	$ 1,443	$ 1,798
Europe, Middle East & Africa	870	690
Greater China	101	102
Asia Pacific & Latin America	720	693
Global Brand Divisions	102	86
Total NIKE Brand	3,236	3,369
Converse	240	297
Corporate	22	11
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 3,498**	**$ 3,677**
INVENTORIES		
North America	$ 2,270	$ 2,218
Europe, Middle East & Africa	1,433	1,327
Greater China	580	463
Asia Pacific & Latin America	687	694
Global Brand Divisions	91	68
Total NIKE Brand	5,061	4,770
Converse	268	286
Corporate	(68)	(1)
TOTAL INVENTORIES	**$ 5,261**	**$ 5,055**
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	$ 848	$ 819
Europe, Middle East & Africa	849	709
Greater China	256	225
Asia Pacific & Latin America	339	340
Global Brand Divisions	597	533
Total NIKE Brand	2,889	2,626
Converse	115	125
Corporate	1,450	1,238
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 4,454**	**$ 3,989**

Revenues by Major Product Lines

Revenues from external customers for NIKE Brand products are attributable to sales of footwear, apparel and equipment. Other revenues from external customers consist primarily of sales by Converse.

(In millions)	Year Ended May 31, 2018	2017	2016
Footwear	$ 22,268	$ 21,081	$ 19,871
Apparel	10,733	9,654	9,067
Equipment	1,396	1,425	1,496
Other	2,000	2,190	1,942
TOTAL NIKE, INC. REVENUES	**$ 36,397**	**$ 34,350**	**$ 32,376**

Revenues and Long-Lived Assets by Geographic Area

After allocation of revenues for Global Brand Divisions, Converse and Corporate to geographical areas based on the location where the sales originated, revenues by geographical area are essentially the same as reported above for the NIKE Brand operating segments with the exception of the United States. Revenues derived in the United States were $15,314 million, $15,778 million and

$15,304 million for the years ended May 31, 2018, 2017 and 2016, respectively. The Company's largest concentrations of long-lived assets primarily consist of the Company's world headquarters and distribution facilities in the United States and distribution facilities in Belgium, China and Japan. Long-lived assets attributable to operations in the United States, which are primarily composed of net property, plant & equipment, were $2,930 million and $2,629 million at May 31, 2018 and 2017, respectively. Long-lived assets attributable to operations in Belgium were $534 million and $390 million at May 31, 2018 and 2017, respectively. Long-lived assets attributable to operations in China were $262 million and $232 million at May 31, 2018 and 2017, respectively. Long-lived assets attributable to operations in Japan were $237 million and $223 million at May 31, 2018 and 2017, respectively.

Major Customers

No customer accounted for 10% or more of the Company's net revenues during the years ended May 31, 2018, 2017 and 2016.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There has been no change of accountants nor any disagreements with accountants on any matter of accounting principles or practices or financial statement disclosure required to be reported under this Item.

ITEM 9A. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and 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 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 May 31, 2018.

"Management's Annual Report on Internal Control Over Financial Reporting" is included in Item 8 of this Report.

We have continued 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.

ITEM 9B. Other Information

On July 20, 2018, the Compensation Committee (the "Committee") of the Board of Directors of NIKE, Inc. (the "Company"), approved a form of discretionary performance award agreement (the "DPA") to enable the Company to award cash incentives to employees in recognition of Company and individual performance. The form of DPA is intended to enhance the Company's ability to pay for performance on a case-by-case basis by supplementing the Company's existing performance-based compensation plans, including the Amended and Restated Long-Term Incentive Plan ("LTIP") and the Executive Performance Sharing Plan. The foregoing is qualified in its entirety by reference to the form of DPA, which is filed as Exhibit 10.22 hereto and incorporated by reference herein.

Additionally, on July 20, 2018, the Committee approved awards under the form of DPA to the Company's continuing named executive officers (collectively, the "Officers") as follows: Mark G. Parker, $1,295,000; Andrew Campion, $277,500; Eric D. Sprunk, $277,500; Hilary K. Krane, $185,000; and John F. Slusher, $185,000. As further described in the Company's 2018 Proxy Statement, the Committee adjusted the payouts for LTIP awards covering the fiscal 2016-2018 performance period to primarily account for the impact of the Tax Cuts and Jobs Act. Because the terms of the LTIP awards, as applicable to the Company's named executive officers, did not contemplate the Tax Cuts and Jobs Act, the Committee determined to award these one-time DPA grants so as to put the Officers in the same position as the non-executive officer LTIP participants.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Item 401 of Regulation S-K regarding directors is included under “Election of Directors” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding executive officers is included under “Executive Officers of the Registrant” in Item 1 of this Report. The information required by Item 405 of Regulation S-K is included under “Election of Directors — Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 406 of Regulation S-K is included under “Corporate Governance — Code of Business Conduct and Ethics” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K regarding the Audit & Finance Committee of the Board of Directors is included under “Corporate Governance — Board Committees” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. Executive Compensation

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K regarding executive compensation is included under “Election of Directors — Director Compensation for Fiscal 2018,” “Compensation Discussion and Analysis,” “Executive Compensation,” “Election of Directors — Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 201(d) of Regulation S-K is included under “Executive Compensation — Equity Compensation Plans” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 403 of Regulation S-K is included under “Election of Directors — Stock Holdings of Certain Owners and Management” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

The information required by Items 404 and 407(a) of Regulation S-K is included under “Election of Directors — Transactions with Related Persons” and “Corporate Governance — Director Independence” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

The information required by Item 9(e) of Schedule 14A is included under “Ratification of Independent Registered Public Accounting Firm” in the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3. 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	Fifth Restated Bylaws, as amended (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed November 17, 2017).
4.1	Restated Articles of Incorporation, as amended (see Exhibit 3.1).
4.2	Fifth Restated Bylaws, as amended (see Exhibit 3.2).
4.3	Indenture dated as of April 26, 2013, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed April 26, 2013).
4.4	Second Supplemental Indenture, dated as of October 29, 2015, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 3.875% Notes due 2045 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 29, 2015).
4.5	Third Supplemental Indenture, dated as of October 21, 2016, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.375% Notes due 2026 and form of 3.375% Notes due 2046 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 21, 2016).
10.1	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 21, 2005).*
10.2	Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors after May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2010).*

10.3	Form of Non-Statutory Stock Option Agreement for options granted to executives prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.4	Form of Restricted Stock Agreement for non-employee directors under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.5	Form of Non-Statutory Stock Option Agreement for options granted to executives after May 31, 2010 under the Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*

10.6	Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.7	NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.8	NIKE, Inc. Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2012).*
10.9	NIKE, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.10	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective April 1, 2013) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2013).*
10.11	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective June 1, 2004) (applicable to amounts deferred before January 1, 2005) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004).*
10.12	Amendment No. 1 effective January 1, 2008 to the NIKE, Inc. Deferred Compensation Plan (June 1, 2004 Restatement) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.13	NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008).*
10.14	Amended and Restated Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated July 24, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2008).*
10.15	Form of Restricted Stock Agreement under the Stock Incentive Plan for awards after May 31, 2010 (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.16	Form of Restricted Stock Unit Agreement under the Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2018).*
10.17	Form of Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and its executive officers (other than Mark G. Parker).*
10.18	Policy for Recoupment of Incentive Compensation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 20, 2010).*
10.19	Credit Agreement dated as of August 28, 2015 among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citibank N.A., as Syndication Agent, Deutsche Bank A.G. New York Branch and HSBC Bank USA, National Association, as Co-Documentation Agents, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 2, 2015).
10.20	Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.21	Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.22	Form of Discretionary Performance Award Agreement.*
12.1	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (included within this Annual Report on Form 10-K).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* *Management contract or compensatory plan or arrangement.*

The Exhibits filed herewith do not include certain instruments with respect to long-term debt of NIKE and its subsidiaries, inasmuch as the total amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of NIKE and its subsidiaries on a consolidated basis. NIKE agrees, pursuant to Item 601(b)(4)(iii) of Regulation S-K, that it will furnish a copy of any such instrument to the SEC upon request.

Upon written request to Investor Relations, NIKE, Inc., One Bowerman Drive, Beaverton, Oregon 97005-6453, NIKE will furnish shareholders with a copy of any Exhibit upon payment of $0.10 per page, which represents our reasonable expenses in furnishing Exhibits.

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SCHEDULE II — Valuation and Qualifying Accounts

(In millions)	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts[(1)]	Write-Offs, Net	Balance at End of Period
Sales returns reserve					
For the year ended May 31, 2016	$ 379	$ 788	$ (15)	$ (708)	$ 444
For the year ended May 31, 2017	444	696	3	(800)	343
For the year ended May 31, 2018	343	640	5	(658)	330
Allowance for doubtful accounts[(2)]					
For the year ended May 31, 2016	$ 78	$ 52	$ (2)	$ (85)	$ 43
For the year ended May 31, 2017	43	16	—	(40)	19
For the year ended May 31, 2018	19	19	—	(8)	30

(1) Amounts included in this column primarily relate to foreign currency translation.

(2) Includes both current and non-current portions of the allowance for doubtful accounts. The non-current portion is included in Deferred income taxes and other assets on the Consolidated Balance Sheets.

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ITEM 16. Form 10-K Summary

None.

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Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-212617) and Form S-8 (Nos. 033-63995, 333-63581, 333-63583, 333-68864, 333-68886, 333-71660, 333-104822, 333-117059, 333-133360, 333-164248, 333-171647, 333-173727, 333-208900 and 333-215439) of NIKE, Inc. of our report dated July 24, 2018 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon

July 24, 2018

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Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.	
By:	/s/ MARK G. PARKER
	Mark G. Parker
	Chairman, President and Chief Executive Officer
Date:	July 24, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
PRINCIPAL EXECUTIVE OFFICER AND DIRECTOR:		
/s/ MARK G. PARKER **Mark G. Parker**	*Chairman, President and Chief Executive Officer*	July 24, 2018
PRINCIPAL FINANCIAL OFFICER:		
/s/ ANDREW CAMPION **Andrew Campion**	*Chief Financial Officer*	July 24, 2018
PRINCIPAL ACCOUNTING OFFICER:		
/s/ CHRIS L. ABSTON **Chris L. Abston**	*Corporate Controller*	July 24, 2018
DIRECTORS:		
/s/ CATHLEEN A. BENKO **Cathleen A. Benko**	*Director*	July 24, 2018
/s/ ELIZABETH J. COMSTOCK **Elizabeth J. Comstock**	*Director*	July 24, 2018
/s/ JOHN G. CONNORS **John G. Connors**	*Director*	July 24, 2018
/s/ TIMOTHY D. COOK **Timothy D. Cook**	*Director*	July 24, 2018
/s/ JOHN J. DONAHOE II **John J. Donahoe II**	*Director*	July 24, 2018
/s/ ALAN B. GRAF, JR. **Alan B. Graf, Jr.**	*Director*	July 24, 2018
/s/ PETER B. HENRY Peter B. Henry	*Director*	July 24, 2018
/s/ TRAVIS A. KNIGHT **Travis A. Knight**	*Director*	July 24, 2018
/s/ JOHN C. LECHLEITER **John C. Lechleiter**	*Director*	July 24, 2018
/s/ MICHELLE A. PELUSO **Michelle A. Peluso**	*Director*	July 24, 2018
/s/ JOHNATHAN A. RODGERS **Johnathan A. Rodgers**	*Director*	July 24, 2018
/s/ JOHN R. THOMPSON, JR. **John R. Thompson, Jr.**	*Director*	July 24, 2018