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

**FORM 10-K**

(Mark One)

**b 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



**NIKE, Inc.**

(Exact name of Registrant as specified in its charter)

**OREGON**

(State or other jurisdiction of incorporation)

**One Bowerman Drive, Beaverton, Oregon**

(Address of principal executive offices)

**93-0584541**

(IRS Employer Identification No.)

**97005-6453**

(Zip Code)

**(503) 671-6453**

(Registrant's telephone number, including area code)

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

**NKE**

(Trading symbol)

**New York Stock Exchange**

(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.  | b   | .. |
| • if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   | ..  | b  |
| • 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. | b   | .. |
| • 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).                                    | b   | .. |
| • 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      b      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](http://www.nike.com). On our NIKE corporate website, located at [investors.nike.com](http://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](http://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.

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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.

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.

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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:

<b>U.S. RETAIL STORES</b>	<b>NUMBER</b>
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
<b>TOTAL</b>	<b>384</b>

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:

<b>NON-U.S. RETAIL STORES</b>	<b>NUMBER</b>
NIKE Brand factory stores	648
NIKE Brand in-line stores (including employee-only stores)	57
Converse stores (including factory stores)	63
<b>TOTAL</b>	<b>768</b>

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.

## 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.

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## 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.

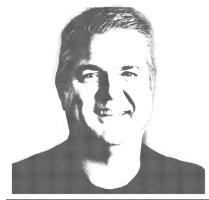
We have followed a policy of applying for and registering intellectual property rights in the United States and select foreign countries on trademarks, inventions, innovations and designs that we deem valuable. We also continue to vigorously protect our intellectual property, including trademarks, patents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

	<p><b>Mark G. Parker</b>, 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.</p>
	<p><b>Andrew Campion</b>, 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.</p>
	<p><b>Elliott Hill</b>, 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.</p>
	<p><b>Hilary K. Krane</b>, 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 &amp; Co. from 2006 to 2010. From 1996 to 2006, she was a Partner and Assistant General Counsel at PricewaterhouseCoopers LLP.</p>
	<p><b>Monique S. Matheson</b>, 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.</p>
	<p><b>John F. Slusher</b>, 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 &amp; 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 &amp; Myers from 1995 to 1998.</p>
	<p><b>Eric D. Sprunk</b>, 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 &amp; 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.</p>

# 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.

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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.

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- 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
	<b>10,589,881</b>	<b>\$ 84.69</b>	

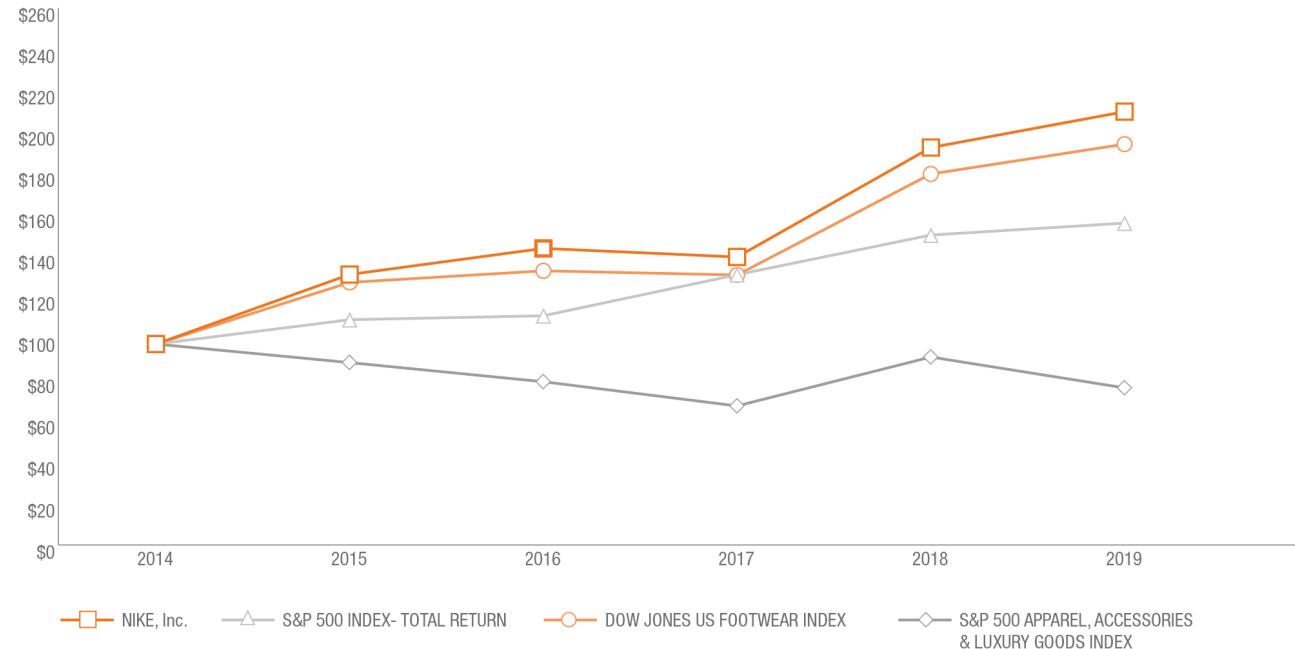
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## PERFORMANCE GRAPH

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



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.

# 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				
	2019	2018	2017	2016	2015
<b>Year Ended May 31,</b>					
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
<b>At May 31,</b>					
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
<b>Financial Ratios:</b>					
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) (In millions, except per share data)	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER	
	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 %
<i>Gross margin</i>	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 %
<i>% of revenues</i>	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 %
<i>Effective tax rate</i>	16.1%	55.3%			13.2%	
<b>NET INCOME</b>	<b>\$ 4,029</b>	<b>\$ 1,933</b>		<b>108 %</b>	<b>\$ 4,240</b>	<b>-54 %</b>
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.

# CONSOLIDATED OPERATING RESULTS

## REVENUES

(Dollars in millions)	FISCAL 2019	FISCAL 2018 <sup>(1)</sup>	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES <sup>(2)</sup>	FISCAL 2017 <sup>(1)</sup>	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES <sup>(2)</sup>
<b>NIKE, Inc. Revenues:</b>							
<b>NIKE Brand Revenues by:</b>							
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 <sup>(3)</sup>	42	88	-52 %	-53 %	73	21 %	12 %
<b>Total NIKE Brand Revenues</b>	<b>37,218</b>	<b>34,485</b>	<b>8 %</b>	<b>11 %</b>	<b>32,233</b>	<b>7 %</b>	<b>5 %</b>
Converse	1,906	1,886	1 %	3 %	2,042	-8 %	-11 %
Corporate <sup>(4)</sup>	(7)	26	—	—	75	—	—
<b>TOTAL NIKE, INC. REVENUES</b>	<b>\$ 39,117</b>	<b>\$ 36,397</b>	<b>7 %</b>	<b>11 %</b>	<b>\$ 34,350</b>	<b>6 %</b>	<b>4 %</b>
<i>Supplemental NIKE Brand Revenues Details:</i>							
<b>NIKE Brand Revenues by:</b>							
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 <sup>(3)</sup>	42	88	-52 %	-53 %	73	21 %	12 %
<b>TOTAL NIKE BRAND REVENUES</b>	<b>\$ 37,218</b>	<b>\$ 34,485</b>	<b>8 %</b>	<b>11 %</b>	<b>\$ 32,233</b>	<b>7 %</b>	<b>5 %</b>
<b>NIKE Brand Revenues on a Wholesale Equivalent Basis:<sup>(2)</sup></b>							
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 %
<b>TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES</b>	<b>\$ 32,550</b>	<b>\$ 30,301</b>	<b>7 %</b>	<b>11 %</b>	<b>\$ 28,694</b>	<b>6 %</b>	<b>4 %</b>
<b>NIKE Brand Wholesale Equivalent Revenues by:<sup>(2)</sup></b>							
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 <sup>(5)</sup>	2,150	1,784	21 %	25 %	1,400	27 %	14 %
<b>TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES</b>	<b>\$ 32,550</b>	<b>\$ 30,301</b>	<b>7 %</b>	<b>11 %</b>	<b>\$ 28,694</b>	<b>6 %</b>	<b>4 %</b>
<b>NIKE Brand Wholesale Equivalent Revenues by:<sup>(2)</sup></b>							
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 <sup>(6)</sup>	5,854	5,463	7 %	9 %	5,392	1 %	0 %
<b>TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES</b>	<b>\$ 32,550</b>	<b>\$ 30,301</b>	<b>7 %</b>	<b>11 %</b>	<b>\$ 28,694</b>	<b>6 %</b>	<b>4 %</b>

(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.

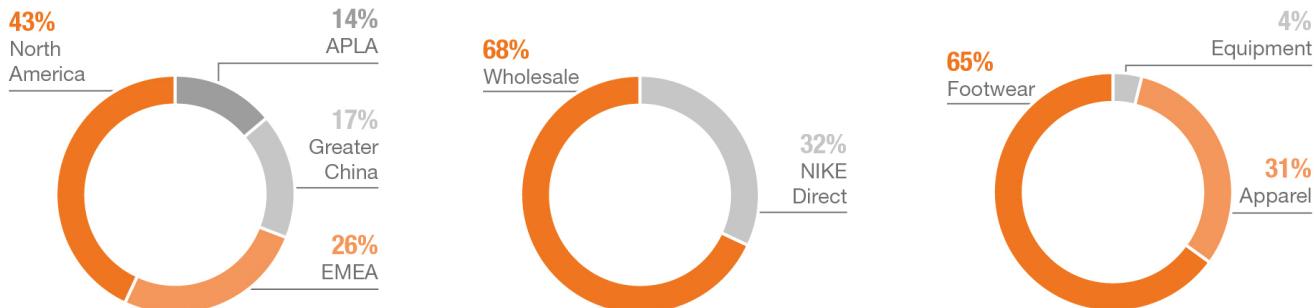
(2) The percent change excluding currency changes and the presentation of wholesale equivalent revenues represent non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" for further information.

(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:



## 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.

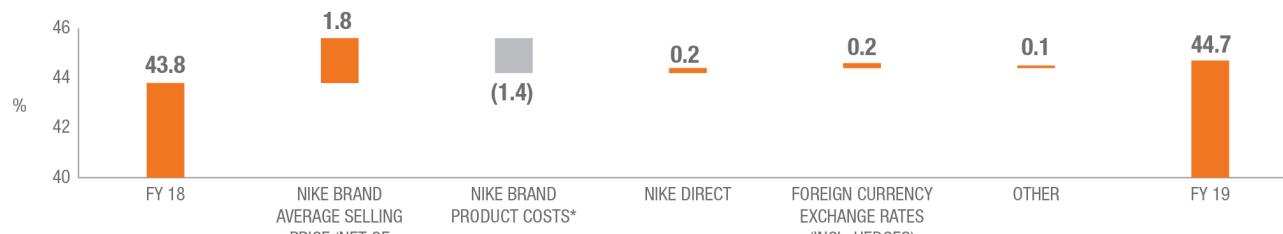
On a reported basis, NIKE Direct revenues represented approximately 32% of our total NIKE Brand revenues for fiscal 2019 compared to 30% for fiscal 2018. Digital commerce sales were \$3.8 billion for fiscal 2019 compared to \$2.8 billion for fiscal 2018. On a currency-neutral basis, NIKE Direct revenues 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.

## 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:



\*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 <sup>(1)</sup>	\$ 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.

## 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 <sup>(1)</sup>	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES <sup>(1)</sup>
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 <sup>(2)</sup>	42	88	-52 %	-53 %	73	21 %	12 %
<b>TOTAL NIKE BRAND</b>	<b>37,218</b>	<b>34,485</b>	<b>8 %</b>	<b>11 %</b>	<b>32,233</b>	<b>7 %</b>	<b>5 %</b>
Converse	1,906	1,886	1 %	3 %	2,042	-8 %	-11 %
Corporate <sup>(3)</sup>	(7)	26	—	—	75	—	—
<b>TOTAL NIKE, INC. REVENUES</b>	<b>\$ 39,117</b>	<b>\$ 36,397</b>	<b>7 %</b>	<b>11 %</b>	<b>\$ 34,350</b>	<b>6 %</b>	<b>4 %</b>

(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 %
<b>TOTAL NIKE BRAND</b>	<b>6,357</b>	<b>5,525</b>	<b>15 %</b>	<b>5,192</b>	<b>6 %</b>
Converse	303	310	-2 %	477	-35 %
Corporate	(1,810)	(1,456)	-24 %	(724)	-101 %
<b>TOTAL NIKE, INC. EARNINGS BEFORE INTEREST AND TAXES</b>	<b>4,850</b>	<b>4,379</b>	<b>11 %</b>	<b>4,945</b>	<b>-11 %</b>
Interest expense (income), net	49	54	—	59	—
<b>TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES</b>	<b>\$ 4,801</b>	<b>\$ 4,325</b>	<b>11 %</b>	<b>\$ 4,886</b>	<b>-11 %</b>

## NORTH AMERICA

(Dollars in millions)	FISCAL 2019	FISCAL 2018	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES	FISCAL 2017	% CHANGE	% CHANGE EXCLUDING CURRENCY CHANGES
<b>Revenues by:</b>							
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 %
<b>TOTAL REVENUES</b>	<b>\$ 15,902</b>	<b>\$ 14,855</b>	<b>7%</b>	<b>7%</b>	<b>\$ 15,216</b>	<b>-2 %</b>	<b>-2 %</b>
<b>Revenues by:</b>							
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 %
<b>TOTAL REVENUES</b>	<b>\$ 15,902</b>	<b>\$ 14,855</b>	<b>7%</b>	<b>7%</b>	<b>\$ 15,216</b>	<b>-2 %</b>	<b>-2 %</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	<b>\$ 3,925</b>	<b>\$ 3,600</b>	<b>9%</b>		<b>\$ 3,875</b>	<b>-7 %</b>	

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.

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
<b>Revenues by:</b>							
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%
<b>TOTAL REVENUES</b>	<b>\$ 9,812</b>	<b>\$ 9,242</b>	<b>6%</b>	<b>11%</b>	<b>\$ 7,970</b>	<b>16%</b>	<b>9%</b>
<b>Revenues by:</b>							
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%
<b>TOTAL REVENUES</b>	<b>\$ 9,812</b>	<b>\$ 9,242</b>	<b>6%</b>	<b>11%</b>	<b>\$ 7,970</b>	<b>16%</b>	<b>9%</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	<b>\$ 1,995</b>	<b>\$ 1,587</b>	<b>26%</b>		<b>\$ 1,507</b>	<b>5%</b>	

### 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
<b>Revenues by:</b>							
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 %
<b>TOTAL REVENUES</b>	<b>\$ 6,208</b>	<b>\$ 5,134</b>	<b>21%</b>	<b>24%</b>	<b>\$ 4,237</b>	<b>21%</b>	<b>18 %</b>
<b>Revenues by:</b>							
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 %
<b>TOTAL REVENUES</b>	<b>\$ 6,208</b>	<b>\$ 5,134</b>	<b>21%</b>	<b>24%</b>	<b>\$ 4,237</b>	<b>21%</b>	<b>18 %</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	<b>\$ 2,376</b>	<b>\$ 1,807</b>	<b>31%</b>		<b>\$ 1,507</b>	<b>20%</b>	

### 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
<b>Revenues by:</b>							
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 %
<b>TOTAL REVENUES</b>	<b>\$ 5,254</b>	<b>\$ 5,166</b>	<b>2 %</b>	<b>13%</b>	<b>\$ 4,737</b>	<b>9 %</b>	<b>10 %</b>
<b>Revenues by:</b>							
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 %
<b>TOTAL REVENUES</b>	<b>\$ 5,254</b>	<b>\$ 5,166</b>	<b>2 %</b>	<b>13%</b>	<b>\$ 4,737</b>	<b>9 %</b>	<b>10 %</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	<b>\$ 1,323</b>	<b>\$ 1,189</b>	<b>11 %</b>		<b>\$ 980</b>	<b>21 %</b>	

## 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.

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 (Dollars in millions)	CASH PAYMENTS DUE DURING THE YEAR ENDING MAY 31,						
	2020	2021	2022	2023	2024	THEREAFTER	TOTAL
Operating Leases	\$ 553	\$ 513	\$ 441	\$ 386	\$ 345	\$ 1,494	\$ 3,732
Capital Leases and Other Financing Obligations <sup>(1)</sup>	32	34	40	37	34	197	374
Long-Term Debt <sup>(2)</sup>	115	112	109	609	98	4,617	5,660
Endorsement Contracts <sup>(3)</sup>	1,382	1,274	1,360	1,077	968	4,148	10,209
Product Purchase Obligations <sup>(4)</sup>	5,203	—	—	—	—	—	5,203
Other Purchase Obligations <sup>(5)</sup>	1,331	411	225	166	135	492	2,760
Transition Tax Related to the Tax Act <sup>(6)</sup>	86	86	86	86	161	483	988
<b>TOTAL</b>	<b>\$ 8,702</b>	<b>\$ 2,430</b>	<b>\$ 2,261</b>	<b>\$ 2,361</b>	<b>\$ 1,741</b>	<b>\$ 11,431</b>	<b>\$ 28,926</b>

<sup>(1)</sup> 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, 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 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 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, net* 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/covariance" 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.

(Dollars in millions)	EXPECTED MATURITY DATE YEAR ENDING MAY 31,							FAIR VALUE	
	2020	2021	2022	2023	2024	THEREAFTER	TOTAL		
<b>Foreign Exchange Risk</b>									
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%	0.0%	2.4%	
<b>Interest Rate Risk</b>									
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%	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.

# NIKE, INC.

## CONSOLIDATED STATEMENTS OF INCOME

<i>(In millions, except per share data)</i>	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
<b>NET INCOME</b>	<b>\$ 4,029</b>	<b>\$ 1,933</b>	<b>\$ 4,240</b>
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.

# NIKE, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)	YEAR ENDED MAY 31,		
	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)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 4,352</b>	<b>\$ 2,037</b>	<b>\$ 3,709</b>

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

# NIKE, INC.

## CONSOLIDATED BALANCE SHEETS

	MAY 31,	
	2019	2018
(Dollars in millions)		
<b>ASSETS</b>		
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
<b>TOTAL ASSETS</b>	<b>\$ 23,717</b>	<b>\$ 22,536</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 23,717</b>	<b>\$ 22,536</b>

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,		
	2019	2018	2017
<b>Cash provided by operations:</b>			
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
<b>Cash provided (used) by investing activities:</b>			
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)
<b>Cash used by financing activities:</b>			
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
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<b>\$ 4,466</b>	<b>\$ 4,249</b>	<b>\$ 3,808</b>
<b>Supplemental disclosure of cash flow information:</b>			
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.

# NIKE, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share data)	COMMON STOCK				CAPITAL IN EXCESS OF STATED VALUE	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	TOTAL
	CLASS A		CLASS B					
	SHARES	AMOUNT	SHARES	AMOUNT				
<b>Balance at May 31, 2016</b>	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)	
<b>Balance at May 31, 2017</b>	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)	—
<b>Balance at May 31, 2018</b>	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)	

**Balance at May 31, 2019**

<b>315</b>	<b>\$</b>	<b>—</b>	<b>1,253</b>	<b>\$</b>	<b>3</b>	<b>\$</b>	<b>7,163</b>	<b>\$</b>	<b>231</b>	<b>\$</b>	<b>1,643</b>	<b>\$</b>	<b>9,040</b>
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*The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.*

**54 NIKE, INC.**

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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# 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.

## REVENUErecognition

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 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 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:

(Dollars in millions)	AS OF MAY 31, 2019			BALANCES WITHOUT ADOPTION OF TOPIC 606
	AS REPORTED	EFFECT OF ADOPTION		
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
<b>TOTAL ASSETS</b>	<b>23,717</b>	<b>1,192</b>	<b>\$</b>	<b>22,525</b>
Accrued liabilities	5,010	1,192	\$	3,818
Total current liabilities	7,866	1,192	\$	6,674
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 23,717</b>	<b>\$ 1,192</b>	<b>\$</b>	<b>22,525</b>

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:

(Dollars in millions)	AS OF MAY 31,	
	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
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>\$ 4,744</b>	<b>\$ 4,454</b>

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:

(Dollars in millions)	AS OF MAY 31,					
	2019			2018		
	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
<b>IDENTIFIABLE INTANGIBLE ASSETS, NET</b>	<b>\$ 303</b>	<b>\$ 20</b>	<b>\$ 283</b>	<b>\$ 303</b>	<b>\$ 18</b>	<b>\$ 285</b>

*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.

## 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 <sup>(1)</sup>	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 <sup>(2)</sup>	805	768
<b>TOTAL ACCRUED LIABILITIES</b>	<b>\$ 5,010</b>	<b>\$ 3,269</b>

(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.

(Dollars in millions)	AS OF MAY 31, 2019		
	ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS
Cash	\$ 853	\$ 853	—
<u>Level 1:</u>			
U.S. Treasury securities	347	200	147
<u>Level 2:</u>			
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
<b>TOTAL</b>	<b>\$ 4,663</b>	<b>\$ 4,466</b>	<b>197</b>

(Dollars in millions)	AS OF MAY 31, 2018			
	ASSETS AT FAIR VALUE	CASH AND EQUIVALENTS	SHORT-TERM INVESTMENTS	
Cash	\$ 415	\$ 415	\$	—
<u>Level 1:</u>				
U.S. Treasury securities	1,178	500		678
<u>Level 2:</u>				
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
<b>TOTAL</b>	<b>\$ 5,245</b>	<b>\$ 4,249</b>	<b>\$</b>	<b>996</b>

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.

(Dollars in millions)	AS OF MAY 31, 2019							
	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		
<u>Level 2:</u>								
Foreign exchange forwards and options <sup>(1)</sup>	\$ 611	\$ 611	—	\$ 51	\$ 51	\$ 51	\$ 51	—
Embedded derivatives	11	5	6	3	1			2
<b>TOTAL</b>	<b>\$ 622</b>	<b>\$ 616</b>	<b>6</b>	<b>\$ 54</b>	<b>\$ 52</b>	<b>\$</b>	<b>52</b>	<b>2</b>

<sup>(1)</sup> 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			DERIVATIVE LIABILITIES				
	ASSETS AT FAIR VALUE	OTHER CURRENT ASSETS	OTHER LONG-TERM ASSETS	LIABILITIES AT FAIR VALUE	ACCRUED LIABILITIES	OTHER LONG-TERM LIABILITIES		
<u>Level 2:</u>								
Foreign exchange forwards and options <sup>(1)</sup>	\$ 389	\$ 237	\$ 152	\$ 182	\$ 182	\$ —		
Embedded derivatives	11	3	8	8	2	6		
<b>TOTAL</b>	<b>\$ 400</b>	<b>\$ 240</b>	<b>\$ 160</b>	<b>\$ 190</b>	<b>\$ 184</b>	<b>\$ 6</b>		

(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		2018	
	BORROWINGS	INTEREST RATE	BORROWINGS	INTEREST RATE
<i>Notes payable:</i>				
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)
<b>TOTAL NOTES PAYABLE</b>	<b>\$ 9</b>		<b>\$ 336</b>	
<i>Interest-bearing accounts payable:</i>				
Sojitz America	\$ 75	3.27%	\$ 61	2.82%

(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, 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:

Scheduled Maturity (Dollars and Yen in millions)	ORIGINAL PRINCIPAL	INTEREST RATE	INTEREST PAYMENTS	BOOK VALUE OUTSTANDING AS OF MAY 31,	
				2019	2018
<b>Corporate Bond Payables:(1)(2)</b>					
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
<b>Japanese Yen Notes:(3)</b>					
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
<b>TOTAL LONG-TERM DEBT</b>				<b>\$ 3,464</b>	<b>\$ 3,468</b>

(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.

## NOTE 9 — INCOME TAXES

*Income before income taxes* is as follows:

(Dollars in millions)	YEAR ENDED MAY 31,		
	2019	2018	2017
<b>Income before income taxes:</b>			
United States	\$ 593	\$ 744	\$ 1,240
Foreign	4,208	3,581	3,646
<b>TOTAL INCOME BEFORE INCOME TAXES</b>	<b>\$ 4,801</b>	<b>\$ 4,325</b>	<b>\$ 4,886</b>

The provision for income taxes is as follows:

(Dollars in millions)	YEAR ENDED MAY 31,		
	2019	2018	2017
<b>Current:</b>			
United States			
Federal	\$ 74	\$ 1,167	\$ 398
State	56	45	82
Foreign	608	533	439
Total Current	738	1,745	919
<b>Deferred:</b>			
United States			
Federal	(33)	595	(279)
State	(9)	25	(9)
Foreign	76	27	15
Total Deferred	34	647	(273)
<b>TOTAL INCOME TAX EXPENSE</b>	<b>\$ 772</b>	<b>\$ 2,392</b>	<b>\$ 646</b>

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 %
<b>EFFECTIVE INCOME TAX RATE</b>	<b>16.1 %</b>	<b>55.3 %</b>	<b>13.2 %</b>

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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
<b>Deferred tax assets:</b>		
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
<b>Total deferred tax assets</b>	<b>928</b>	<b>858</b>
Valuation allowance	(88)	(95)
<b>Total deferred tax assets after valuation allowance</b>	<b>840</b>	<b>763</b>
<b>Deferred tax liabilities:</b>		
Foreign withholding tax on undistributed earnings of foreign subsidiaries	(235)	(155)
Property, plant and equipment	(188)	(167)
Intangibles	(23)	(77)
Other	(18)	(26)
<b>Total deferred tax liabilities</b>	<b>(464)</b>	<b>(425)</b>
<b>NET DEFERRED TAX ASSET</b>	<b>\$ 376</b>	<b>\$ 338</b>

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
<b>UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD</b>	<b>\$ 808</b>	<b>\$ 698</b>	<b>\$ 461</b>

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:

(Dollars in millions)	YEAR ENDING MAY 31,							TOTAL
	2020	2021	2022	2023	2024-2039	INDEFINITE		
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:

(Dollars in millions)	YEAR ENDED MAY 31,		
	2019	2018	2017
Stock options <sup>(1)</sup>	\$ 207	\$ 149	\$ 145
ESPPs	40	34	36
Restricted stock	78	35	34
<b>TOTAL STOCK-BASED COMPENSATION EXPENSE</b>	<b>\$ 325</b>	<b>\$ 218</b>	<b>\$ 215</b>

(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%

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 <sup>(1)</sup>	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.

(Dollars in millions, except per share data)	YEAR ENDED MAY 31,		
	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
<b>DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	<b>1,618.4</b>	<b>1,659.1</b>	<b>1,692.0</b>
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.

(Dollars in millions)	DERIVATIVE ASSETS			DERIVATIVE LIABILITIES		
	BALANCE SHEET LOCATION	AS OF MAY 31,		BALANCE SHEET LOCATION	AS OF MAY 31,	
		2019	2018		2019	2018
<b>Derivatives formally designated as hedging instruments:</b>						
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
<b>Derivatives not designated as hedging instruments:</b>						
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
<b>TOTAL DERIVATIVES</b>		<b>\$ 622</b>	<b>\$ 400</b>		<b>\$ 54</b>	<b>\$ 190</b>

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:

(Dollars in millions)	YEAR ENDED MAY 31,					
	2019		2018		2017	
	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	\$ 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:

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS) ON DERIVATIVES <sup>(1)</sup>			AMOUNT OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME <sup>(1)</sup>			YEAR ENDED MAY 31,	
	YEAR ENDED MAY 31,			LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME				
	2019	2018	2017	2019	2018	2017		
<b>Derivatives designated as cash flow hedges:</b>								
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 <sup>(2)</sup>	—	—	(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.

(Dollars in millions)	AMOUNT OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES			LOCATION OF GAIN (LOSS) RECOGNIZED IN INCOME ON DERIVATIVES	
	YEAR ENDED MAY 31,				
	2019	2018	2017		
<b>Derivatives not designated as hedging instruments:</b>					
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.

## 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 <sup>(1)</sup>	CASH FLOW HEDGES	NET INVESTMENT HEDGES <sup>(1)</sup>	OTHER	TOTAL
<b>Balance at May 31, 2018</b>	\$ (173)	\$ 17	\$ 115	\$ (51)	\$ (92)
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications <sup>(2)</sup>	(173)	573	—	10	410
Reclassifications to net income of previously deferred (gains) losses <sup>(3)</sup>	—	(70)	—	(17)	(87)
Total other comprehensive income (loss)	(173)	503	—	(7)	323
<b>Balance at May 31, 2019</b>	<b>\$ (346)</b>	<b>\$ 520</b>	<b>\$ 115</b>	<b>\$ (58)</b>	<b>\$ 231</b>

(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 <sup>(1)</sup>	CASH FLOW HEDGES	NET INVESTMENT HEDGES <sup>(1)</sup>	OTHER	TOTAL
<b>Balance at May 31, 2017</b>	<b>\$ (191)</b>	<b>\$ (52)</b>	<b>\$ 115</b>	<b>\$ (85)</b>	<b>\$ (213)</b>
Other comprehensive income (loss):					
Other comprehensive gains (losses) before reclassifications <sup>(2)</sup>	(6)	(52)	—	2	(56)
Reclassifications to net income of previously deferred (gains) losses <sup>(3)</sup>	—	128	—	32	160
Total other comprehensive income (loss)	(6)	76	—	34	104
Reclassifications to retained earnings in accordance with ASU 2018-02 <sup>(4)</sup>	24	(7)	—	—	17
<b>Balance at May 31, 2018</b>	<b>\$ (173)</b>	<b>\$ 17</b>	<b>\$ 115</b>	<b>\$ (51)</b>	<b>\$ (92)</b>

(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		LOCATION OF GAIN (LOSS) RECLASSIFIED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) INTO INCOME
	YEAR ENDED MAY 31, 2019	2018	
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	
<b>Gain (loss) net of tax</b>	<b>70</b>	<b>(128)</b>	
Gains (losses) on other	17	(32)	Other (income) expense, net
Total before tax	17	(32)	
Tax (expense) benefit	—	—	
<b>Gain (loss) net of tax</b>	<b>17</b>	<b>(32)</b>	
<b>Total net gain (loss) reclassified for the period</b>	<b>\$ 87</b>	<b>\$ (160)</b>	

## 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:

(Dollars in millions)	YEAR ENDED MAY 31, 2019									TOTAL NIKE, INC.	
	NORTH AMERICA	EUROPE, MIDDLE EAST & AFRICA		GREATER CHINA	ASIA PACIFIC & LATIN AMERICA		GLOBAL BRAND DIVISIONS	TOTAL NIKE BRAND	CONVERSE		
		NIKE	GLOBAL		BRAND	NIKE					
<b>Revenues by:</b>											
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 <sup>(1)</sup>	—	—	—	—	42	42	106	(7)	141		
<b>TOTAL REVENUES</b>	<b>\$ 15,902</b>	<b>\$ 9,812</b>	<b>\$ 6,208</b>	<b>\$ 5,254</b>	<b>\$ 42</b>	<b>\$ 37,218</b>	<b>\$ 1,906</b>	<b>\$ (7)</b>	<b>\$ 39,117</b>		
<b>Revenues by:</b>											
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 <sup>(1)</sup>	—	—	—	—	42	42	106	(7)	141		
<b>TOTAL REVENUES</b>	<b>\$ 15,902</b>	<b>\$ 9,812</b>	<b>\$ 6,208</b>	<b>\$ 5,254</b>	<b>\$ 42</b>	<b>\$ 37,218</b>	<b>\$ 1,906</b>	<b>\$ (7)</b>	<b>\$ 39,117</b>		

(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
<b>REVENUES</b>			
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
<b>TOTAL NIKE, INC. REVENUES</b>	<b>\$ 39,117</b>	<b>\$ 36,397</b>	<b>\$ 34,350</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>			
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
<b>TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES</b>	<b>\$ 4,801</b>	<b>\$ 4,325</b>	<b>\$ 4,886</b>
<b>ADDITIONS TO LONG-LIVED ASSETS</b>			
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
<b>TOTAL ADDITIONS TO LONG-LIVED ASSETS</b>	<b>\$ 1,075</b>	<b>\$ 1,194</b>	<b>\$ 1,201</b>
<b>DEPRECIATION</b>			
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
<b>TOTAL DEPRECIATION</b>	<b>\$ 705</b>	<b>\$ 747</b>	<b>\$ 706</b>

<i>(Dollars in millions)</i>	AS OF MAY 31,	
	2019	2018
<b>ACCOUNTS RECEIVABLE, NET</b>		
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
<b>TOTAL ACCOUNTS RECEIVABLE, NET</b>	<b>\$ 4,272</b>	<b>\$ 3,498</b>
<b>INVENTORIES</b>		
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)
<b>TOTAL INVENTORIES</b>	<b>\$ 5,622</b>	<b>\$ 5,261</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>		
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
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>\$ 4,744</b>	<b>\$ 4,454</b>

## 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:

(Dollars in millions)	AS OF MAY 31,	
	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:

(Dollars in millions)	YEAR ENDING MAY 31,							TOTAL
	2020	2021	2022	2023	2024	THEREAFTER		
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.

# 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.

# 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.
<b>1. Financial Statements:</b>	
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
<b>2. Financial Statement Schedule:</b>	
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.	
<b>3. Exhibits:</b>	
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).*	

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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.

## SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(Dollars in millions)	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS <sup>(1)</sup>	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 <sup>(2)</sup>	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.

90 NIKE, INC.

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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) 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

2019 FORM 10-K **91**

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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 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
<b>PRINCIPAL EXECUTIVE OFFICER AND DIRECTOR:</b>		
/s/ MARK G. PARKER <b>Mark G. Parker</b>	<i>Chairman, President and Chief Executive Officer</i>	July 23, 2019
<b>PRINCIPAL FINANCIAL OFFICER:</b>		
/s/ ANDREW CAMPION <b>Andrew Campion</b>	<i>Executive Vice President and Chief Financial Officer</i>	July 23, 2019
<b>PRINCIPAL ACCOUNTING OFFICER:</b>		
/s/ CHRIS L. ABSTON <b>Chris L. Abston</b>	<i>Corporate Controller</i>	July 23, 2019
<b>DIRECTORS:</b>		
/s/ CATHLEEN A. BENKO <b>Cathleen A. Benko</b>	<i>Director</i>	July 23, 2019
/s/ ELIZABETH J. COMSTOCK <b>Elizabeth J. Comstock</b>	<i>Director</i>	July 23, 2019
/s/ JOHN G. CONNORS <b>John G. Connors</b>	<i>Director</i>	July 23, 2019
/s/ TIMOTHY D. COOK <b>Timothy D. Cook</b>	<i>Director</i>	July 23, 2019
/s/ JOHN J. DONAHOE II <b>John J. Donahoe II</b>	<i>Director</i>	July 23, 2019
/s/ ALAN B. GRAF, JR. <b>Alan B. Graf, Jr.</b>	<i>Director</i>	July 23, 2019
/s/ PETER B. HENRY <b>Peter B. Henry</b>	<i>Director</i>	July 23, 2019
/s/ TRAVIS A. KNIGHT <b>Travis A. Knight</b>	<i>Director</i>	July 23, 2019
/s/ JOHN C. LECHLEITER <b>John C. Lechleiter</b>	<i>Director</i>	July 23, 2019
/s/ MICHELLE A. PELUSO <b>Michelle A. Peluso</b>	<i>Director</i>	July 23, 2019
/s/ JOHN W. ROGERS, JR. <b>John W. Rogers, Jr.</b>	<i>Director</i>	July 23, 2019
/s/ JOHN R. THOMPSON, JR. <b>John R. Thompson, Jr.</b>	<i>Director</i>	July 23, 2019