2017
FORM 10-K

NIKE, Inc. Consolidated Statements of Income

(In millions, except per share data)	Year Ended May 31, 2017	2016	2015
Revenues	$ 34,350	$ 32,376	$ 30,601
Cost of sales	19,038	17,405	16,534
Gross profit	15,312	14,971	14,067
Demand creation expense	3,341	3,278	3,213
Operating overhead expense	7,222	7,191	6,679
Total selling and administrative expense	10,563	10,469	9,892
Interest expense (income), net	59	19	28
Other (income) expense, net	(196)	(140)	(58)
Income before income taxes	4,886	4,623	4,205
Income tax expense	646	863	932
NET INCOME	**$ 4,240**	**$ 3,760**	**$ 3,273**
Earnings per common share:			
Basic	$ 2.56	$ 2.21	$ 1.90
Diluted	$ 2.51	$ 2.16	$ 1.85
Dividends declared per common share	$ 0.70	$ 0.62	$ 0.54

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

NIKE, Inc. Consolidated Balance Sheets

	May 31,	
(In millions)	2017	2016
ASSETS		
Current assets:		
Cash and equivalents	$ 3,808	$ 3,138
Short-term investments	2,371	2,319
Accounts receivable, net	3,677	3,241
Inventories	5,055	4,838
Prepaid expenses and other current assets	1,150	1,489
Total current assets	16,061	15,025
Property, plant and equipment, net	3,989	3,520
Identifiable intangible assets, net	283	281
Goodwill	139	131
Deferred income taxes and other assets	2,787	2,422
TOTAL ASSETS	**$ 23,259**	**$ 21,379**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 6	$ 44
Notes payable	325	1
Accounts payable	2,048	2,191
Accrued liabilities	3,011	3,037
Income taxes payable	84	85
Total current liabilities	5,474	5,358
Long-term debt	3,471	1,993
Deferred income taxes and other liabilities	1,907	1,770
Commitments and contingencies		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 329 and 353 shares outstanding	—	—
Class B — 1,314 and 1,329 shares outstanding	3	3
Capital in excess of stated value	8,638	7,786
Accumulated other comprehensive (loss) income	(213)	318
Retained earnings	3,979	4,151
Total shareholders' equity	12,407	12,258
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 23,259**	**$ 21,379**

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

NIKE, Inc. Consolidated Statements of Cash Flows

(In millions)	Year Ended May 31, 2017	2016	2015
Cash provided by operations:			
Net income	$ 4,240	$ 3,760	$ 3,273
Income charges (credits) not affecting cash:			
Depreciation	706	649	606
Deferred income taxes	(273)	(80)	(113)
Stock-based compensation	215	236	191
Amortization and other	10	13	43
Net foreign currency adjustments	(117)	98	424
Changes in certain working capital components and other assets and liabilities:			
(Increase) decrease in accounts receivable	(426)	60	(216)
(Increase) in inventories	(231)	(590)	(621)
(Increase) in prepaid expenses and other current assets	(120)	(161)	(144)
(Decrease) increase in accounts payable, accrued liabilities and income taxes payable	(364)	(889)	1,237
Cash provided by operations	3,640	3,096	4,680
Cash used by investing activities:			
Purchases of short-term investments	(5,928)	(5,367)	(4,936)
Maturities of short-term investments	3,623	2,924	3,655
Sales of short-term investments	2,423	2,386	2,216
Investments in reverse repurchase agreements	—	150	(150)
Additions to property, plant and equipment	(1,105)	(1,143)	(963)
Disposals of property, plant and equipment	13	10	3
Other investing activities	(34)	6	—
Cash used by investing activities	(1,008)	(1,034)	(175)
Cash used by financing activities:			
Net proceeds from long-term debt issuance	1,482	981	—
Long-term debt payments, including current portion	(44)	(106)	(7)
Increase (decrease) in notes payable	327	(67)	(63)
Payments on capital lease and other financing obligations	(17)	(7)	(19)
Proceeds from exercise of stock options and other stock issuances	489	507	514
Excess tax benefits from share-based payment arrangements	177	281	218
Repurchase of common stock	(3,223)	(3,238)	(2,534)
Dividends — common and preferred	(1,133)	(1,022)	(899)
Cash used by financing activities	(1,942)	(2,671)	(2,790)
Effect of exchange rate changes on cash and equivalents	(20)	(105)	(83)
Net increase (decrease) in cash and equivalents	670	(714)	1,632
Cash and equivalents, beginning of year	3,138	3,852	2,220
CASH AND EQUIVALENTS, END OF YEAR	**$ 3,808**	**$ 3,138**	**$ 3,852**
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 98	$ 70	$ 53
Income taxes	703	748	1,262
Non-cash additions to property, plant and equipment	266	252	206
Dividends declared and not paid	300	271	240

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

Notes to Consolidated Financial Statements

NOTE 1 — Summary of Significant Accounting Policies

Description of Business

NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across a wide range of sport categories, amplified with sport-inspired sportswear products carrying the Swoosh trademark as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories using the Jumpman trademark. Sales and operating results of Jordan Brand products are reported within the respective NIKE Brand geographic operating segments. The Hurley brand is focused on surf and action sports and youth lifestyle footwear, apparel and accessories, using the Hurley trademark. Sales and operating results of Hurley brand products are reported within the NIKE Brand's North America geographic operating segment. Converse designs, distributes, markets and sells casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. In some markets outside the U.S., these trademarks are licensed to third parties who design, distribute, market and sell similar products. Operating results of the Converse brand are reported on a stand-alone basis.

Basis of Consolidation

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

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

Reclassifications

Certain prior year amounts have been reclassified to conform to fiscal 2017 presentation.

Revenue Recognition

Wholesale revenues are recognized when title and the risks and rewards of ownership have passed to the customer, based on the terms of sale. This occurs upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale and online store revenues are recorded upon delivery to the customer. Provisions for post-invoice sales discounts, returns and miscellaneous claims from customers are estimated and recorded as a reduction to revenue at the time of sale. Post-invoice sales discounts consist of contractual programs with certain customers or discretionary discounts that are expected to be granted to certain customers at a later date. Estimates of discretionary discounts, returns and claims are based on (1) historical rates, (2) specific identification of outstanding claims and outstanding returns not yet received from customers and (3) estimated discounts, returns and claims expected, but not yet finalized with customers. As of May 31, 2017 and 2016, the Company's reserve balances for post-invoice sales discounts, returns and miscellaneous claims were $643 million and $789 million, respectively.

Cost of Sales

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

Demand Creation Expense

Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, television, digital and print advertising, brand events and retail brand presentation. Advertising production costs are expensed the first time an advertisement is run. Advertising communication 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 completed and delivered.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. Accounting for endorsement payments is based upon specific contract provisions. Generally, endorsement payments are expensed on a straight-line basis over the term of the contract after giving recognition to periodic performance compliance provisions of the contracts. Prepayments made under contracts are included in *Prepaid expenses and other current assets* or *Deferred income taxes and other assets* depending on the period to which the prepayment applies.

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

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

Certain contracts provide for royalty payments to endorsers based upon a predetermined percent of sales of particular products. The Company expenses these payments in *Cost of sales* as the related sales occur. In certain contracts, the Company offers minimum guaranteed royalty payments. For contracts for which the Company estimates it will not meet the minimum guaranteed amount of royalty fees through sales of product, the Company records the amount of the guaranteed payment in excess of that earned through sales of product in *Demand creation expense* uniformly over the contract period.

Through cooperative advertising programs, the Company reimburses customers for certain costs of advertising the Company's products. The Company records these costs in *Demand creation expense* at the point in time when it is obligated to its customers for the costs. This obligation may arise prior to the related advertisement being run.

Total advertising and promotion expenses were $3,341 million, $3,278 million and $3,213 million for the years ended May 31, 2017, 2016 and 2015, respectively. Prepaid advertising and promotion expenses totaled $558 million and $540 million at May 31, 2017 and 2016, respectively, of which $311 million and $272 million, respectively, was recorded in *Prepaid expenses and other current assets*, and $247 million and $268 million, respectively, was recorded in *Deferred income taxes and other assets,* depending on the period to which the prepayment applies.

Operating Overhead Expense

Operating overhead expense consists primarily of wage and benefit-related expenses as well as other administrative costs, such as rent, depreciation and amortization, professional services and 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 that 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 that the Company has the ability and positive intent to hold to maturity are carried at amortized cost. At May 31, 2017 and 2016, the Company did not hold any short-term investments that were classified as trading or held-to-maturity.

At May 31, 2017 and 2016, *Short-term investments* consisted of available-for-sale securities. Available-for-sale securities are recorded at fair value with unrealized gains and losses reported, net of tax, in *Accumulated other comprehensive income*, unless unrealized losses are determined to be other than temporary. Realized gains and losses on the sale of securities are determined by specific identification. The Company considers all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classifies all securities with maturity dates beyond 90 days at the date of purchase as current assets within *Short-term investments* on the Consolidated Balance Sheets.

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

Allowance for Uncollectible Accounts Receivable

Accounts receivable, net consist primarily of amounts receivable from customers. The Company makes ongoing estimates relating to the collectability of its accounts receivable and maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. In determining the amount of the allowance, the Company considers historical levels of credit losses and makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Accounts receivable with anticipated collection dates greater than 12 months from the balance sheet date and related allowances are considered non-current and recorded in *Deferred income taxes and other assets*. The allowance for uncollectible accounts receivable was $19 million and $43 million at May 31, 2017 and 2016, respectively.

Inventory Valuation

Inventories are stated at lower of cost or market and valued on either an average or specific identification cost basis. For inventories in transit that represent direct shipments to customers, the related inventory and cost of sales are recognized on a specific identification basis. Inventory costs primarily consist of product cost from the Company's suppliers, as well as inbound freight, import duties, taxes, insurance and logistics and other handling fees.

Property, Plant and Equipment and Depreciation

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

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

Software Development Costs

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

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

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate that 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 that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, the two-step impairment test is unnecessary. The two-step impairment test first requires the Company to estimate the fair value of its reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and the Company proceeds to step two of the impairment analysis. In step two of the analysis, the Company measures and records an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value, if any.

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

Operating Leases

The Company leases retail store space, certain distribution and warehouse facilities, office space and other non-real estate assets under operating leases. Operating lease agreements may contain rent escalation clauses, renewal options, rent holidays or certain landlord incentives, including tenant improvement allowances. Rent expense for non-cancelable operating leases with scheduled rent increases or landlord incentives are recognized on a straight-line basis over the lease term, beginning with the effective lease commencement date, which is generally the date in which the Company takes possession of or controls the physical use of the property. Certain leases also provide for contingent rent, which is generally determined as a percent of sales in excess of specified levels. A contingent rent liability is recognized together with the corresponding rent expense when specified levels have been achieved or when the Company determines that achieving the specified levels during the period is probable.

Fair Value Measurements

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

The levels of the fair value hierarchy are described below:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than 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 for which there is little or no market data available, which require the reporting entity to develop its own assumptions.

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

Pricing vendors are utilized for 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 that of its counterparties.

Level 1 investments include U.S. Treasury securities. Assets and liabilities included within Level 2 include commercial paper, U.S. Agency securities, money market funds, time deposits, corporate debt securities and derivative contracts. Level 3 investments are valued using internally developed models with unobservable inputs and are an immaterial portion of our portfolio.

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

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

Foreign Currency Translation and Foreign Currency Transactions

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

The Company's global subsidiaries have various assets and liabilities, primarily receivables and payables, which are denominated in currencies other than their functional currency. These balance sheet items are subject to re-measurement, the impact of which is recorded in *Other (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* (a component of *Total shareholders' equity*), *Long-term debt* or *Net income* depending on the nature of the underlying exposure, whether the derivative is formally designated as a hedge and, if designated, the extent to which the hedge is effective. The Company classifies the cash flows at settlement from derivatives in the same category as the cash flows from the related hedged items. For undesignated hedges and designated cash flow hedges, this is primarily within the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. For designated net investment hedges, this is within the *Cash used by investing activities* component of the Consolidated Statements of Cash Flows. For the Company's fair value hedges, which are interest rate swaps used to mitigate the change in fair value of its fixed-rate debt attributable to changes in interest rates, the related cash flows from periodic interest payments are reflected within the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. Refer to Note 16 — Risk Management and Derivatives for more information on the Company's risk management program and derivatives.

Stock-Based Compensation

The Company estimates the fair value of options and stock appreciation rights granted under the NIKE, Inc. Stock Incentive Plan and employees' purchase rights under the Employee Stock Purchase Plans (ESPPs) using the Black-Scholes option pricing model. The Company recognizes this fair value, net of estimated forfeitures, as *Operating overhead expense* in the Consolidated Statements of Income over the vesting period using the straight-line method.

Refer to Note 11 — Common Stock and Stock-Based Compensation for more 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. United States income taxes are provided currently on financial statement earnings of non-U.S. subsidiaries that are expected to be repatriated. The Company determines annually the amount of undistributed non-U.S. earnings to invest indefinitely in its non-U.S. operations.

The Company recognizes a tax benefit from uncertain tax positions in the financial statements only when it is more likely than not that 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.

NOTE 2 — Inventories

Inventory balances of $5,055 million and $4,838 million at May 31, 2017 and 2016, respectively, were substantially all finished goods.

NOTE 3 — Property, Plant and Equipment

Property, plant and equipment, net included the following:

(In millions)	As of May 31, 2017	2016
Land and improvements	$ 285	$ 286
Buildings	1,564	1,467
Machinery, equipment and internal-use software	3,867	3,510
Leasehold improvements	1,484	1,338
Construction in process	758	437
Total property, plant and equipment, gross	7,958	7,038
Less accumulated depreciation	3,969	3,518
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	**$ 3,989**	**$ 3,520**

Capitalized interest was not material for the years ended May 31, 2017, 2016 and 2015.

NOTE 4 — Identifiable Intangible Assets and Goodwill

Identifiable intangible assets, net consist of indefinite-lived trademarks, which are not subject to amortization, and acquired trademarks and other intangible assets, which are subject to amortization. Indefinite-lived trademarks were $281 million at May 31, 2017 and 2016. Gross acquired trademarks and other intangible assets were $19 million and $16 million at May 31, 2017 and 2016, respectively, and the related accumulated amortization was $17 million and $16 million, respectively. *Goodwill* was $139 million and $131 million at May 31, 2017 and 2016, respectively, of which $65 million was included in the Converse segment for each of the respective periods. The remaining amounts were included in Global Brand Divisions for segment reporting purposes. There were no accumulated impairment balances for goodwill as of either period end.

NOTE 5 — Accrued Liabilities

Accrued liabilities included the following:

(In millions)	As of May 31, 2017	2016
Compensation and benefits, excluding taxes	$ 871	$ 943
Endorsement compensation	396	393
Dividends payable	300	271
Import and logistics costs	257	198
Taxes other than income taxes payable	196	159
Fair value of derivatives	168	162
Advertising and marketing	125	119
Collateral received from counterparties to hedging instruments	—	105
Other(1)	698	687
TOTAL ACCRUED LIABILITIES	**$ 3,011**	**$ 3,037**

(1) Other consists of various accrued expenses with no individual item accounting for more than 5% of the total Accrued liabilities balance at May 31, 2017 and 2016.

NOTE 6 — Fair Value Measurements

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2017 and 2016, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. Refer to Note 1 — Summary of Significant Accounting Policies for additional detail regarding the Company's fair value measurement methodology.

	As of May 31, 2017			
(In millions)	Assets at Fair Value	Cash Equivalents	Short-term Investments	Other Long-term Assets
Cash	$ 505	$ 505	$ —	$ —
Level 1:				
U.S. Treasury securities	1,545	159	1,386	—
Level 2:				
Time deposits	813	769	44	—
U.S. Agency securities	522	150	372	—
Commercial paper and bonds	820	251	569	—
Money market funds	1,974	1,974	—	—
Total level 2	4,129	3,144	985	—
Level 3:				
Non-marketable preferred stock	10	—	—	10
TOTAL	**$ 6,189**	**$ 3,808**	**$ 2,371**	**$ 10**

	As of May 31, 2016			
(In millions)	Assets at Fair Value	Cash Equivalents	Short-term Investments	Other Long-term Assets
Cash	$ 774	$ 774	$ —	$ —
Level 1:				
U.S. Treasury securities	1,265	100	1,165	—
Level 2:				
Time deposits	831	827	4	—
U.S. Agency securities	679	—	679	—
Commercial paper and bonds	733	262	471	—
Money market funds	1,175	1,175	—	—
Total level 2	3,418	2,264	1,154	—
Level 3:				
Non-marketable preferred stock	10	—	—	10
TOTAL	**$ 5,467**	**$ 3,138**	**$ 2,319**	**$ 10**

The Company elects to record the gross assets and liabilities of its derivative financial instruments on the Consolidated Balance Sheets. The Company's derivative financial instruments are subject to master netting arrangements that allow for the offset of assets and liabilities in the event of default or early termination of the contract. Any amounts of cash collateral received related to these instruments associated with the Company's credit-related contingent features are recorded in *Cash and equivalents* and *Accrued liabilities*, the latter of which would further offset against the Company's derivative asset balance (refer to Note 16 — Risk Management and Derivatives). Any amounts of cash collateral posted related to these instruments associated with the Company's credit-related contingent features are recorded in *Prepaid expenses and other current assets*, which would further offset against the Company's derivative liability balance (refer to Note 16 — Risk Management and Derivatives). Cash collateral received or posted related to the Company's credit related contingent features is presented in the *Cash provided by operations* component of the Consolidated Statements of Cash Flows. Any amounts of non-cash collateral received, such as securities, are not recorded on the Consolidated Balance Sheets pursuant to U.S. GAAP.

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis as of May 31, 2017 and 2016, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

	As of May 31, 2017					
	Derivative Assets			Derivative Liabilities		
(In millions)	Assets at Fair Value	Other Current Assets	Other Long-term Assets	Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options[(1)]	$ 231	$ 216	$ 15	$ 246	$ 166	$ 80
Embedded derivatives	10	1	9	8	2	6
Interest rate swaps	—	—	—	—	—	—
TOTAL	**$ 241**	**$ 217**	**$ 24**	**$ 254**	**$ 168**	**$ 86**

(1) *If the foreign exchange derivative instruments had been netted in the Consolidated Balance Sheets, the asset and liability positions each would have been reduced by $187 million as of May 31, 2017. As of that date, no amount of cash collateral had been received or posted on the derivative asset and liability balances related to these foreign exchange derivative instruments.*

(In millions)	As of May 31, 2016 — Derivative Assets: Assets at Fair Value	Other Current Assets	Other Long-term Assets	Derivative Liabilities: Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options(1)	$ 603	$ 487	$ 116	$ 145	$ 115	$ 30
Embedded derivatives	7	2	5	9	2	7
Interest rate swaps(2)	7	7	—	45	45	—
TOTAL	**$ 617**	**$ 496**	**$ 121**	**$ 199**	**$ 162**	**$ 37**

(1) If the foreign exchange derivative instruments had been netted in the Consolidated Balance Sheets, the asset and liability positions each would have been reduced by $136 million as of May 31, 2016. As of that date, the Company had received $105 million of cash collateral from various counterparties related to these foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of May 31, 2016.

(2) As of May 31, 2016, no amount of cash collateral had been received or posted on the derivative asset and liability balances related to its interest rate swaps.

Available-for-sale securities comprise investments in U.S. Treasury and Agency securities, time deposits, money market funds, corporate commercial paper and bonds. These securities are valued using market prices on both active markets (Level 1) and less active markets (Level 2). As of May 31, 2017, the Company held $2,125 million of available-for-sale securities with maturity dates within one year and $246 million with maturity dates over one year and less than five years within *Short-term investments* on the Consolidated Balance Sheets. The gross realized gains and losses on sales of available-for-sale securities were immaterial for the fiscal years ended May 31, 2017 and 2016. Unrealized gains and losses on available-for-sale securities included in *Accumulated other comprehensive income* were immaterial as of May 31, 2017 and 2016. The Company regularly reviews its available-for-sale securities for other-than-temporary impairment. For the years ended May 31, 2017 and 2016, the Company did not consider its securities to be other-than-temporarily impaired and accordingly, did not recognize any impairment losses.

Included in *Interest expense (income), net* was interest income related to the Company's available-for-sale securities of $27 million, $12 million and $6 million for the years ended May 31, 2017, 2016 and 2015, respectively.

The Company's Level 3 assets comprise investments in certain non-marketable preferred stock. These Level 3 investments are an immaterial portion of the Company's portfolio. Changes in Level 3 investment assets were immaterial during the years ended May 31, 2017 and 2016.

No transfers among the levels within the fair value hierarchy occurred during the years ended May 31, 2017 or 2016.

Derivative financial instruments include foreign exchange forwards and options, embedded derivatives and interest rate swaps. Refer to Note 16 — Risk Management and Derivatives for additional detail. 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, 2017 and 2016, assets or liabilities that were required to be measured at fair value on a non-recurring basis were immaterial.

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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, 2017 and 2016 are summarized below:

(Dollars in millions)	As of May 31, 2017 — Borrowings	Interest Rate	2016 — Borrowings	Interest Rate
Notes payable:				
Commercial paper	$ 325	0.86%	$ —	0.00%
U.S. operations	—	0.00%(1)	—	0.00%(1)
Non-U.S. operations	—	0.00%(1)	1	13.00%(1)
TOTAL NOTES PAYABLE	**$ 325**		**$ 1**	
Interest-bearing accounts payable:				
Sojitz America	$ 51	1.78%	$ 39	1.27%

(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 Emerging Markets 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, 2017, the Company had $325 million outstanding under its $2 billion commercial paper program at a weighted average interest rate of 0.86%. No borrowings were outstanding at May 31, 2016.

On August 28, 2015, the Company entered into a committed credit facility agreement with a syndicate of banks which provides for up to $2 billion of borrowings. The facility matures August 28, 2020, with a one year extension option prior to any anniversary of the closing date, provided that in no event shall it extend beyond August 28, 2022. Based on the Company's current long-term senior unsecured debt ratings of AA- and A1 from Standard and Poor's Corporation and Moody's Investor Services, respectively, the interest rate charged on any outstanding borrowings would be the prevailing LIBOR plus 0.455%. The facility fee is 0.045% of the total commitment. Under this committed credit facility, the Company must maintain certain financial ratios, among other things, with which the Company was in compliance at May 31, 2017. No amounts were outstanding under the committed credit facility as of May 31, 2017 or 2016.

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, 2017	Book Value Outstanding as of May 31, 2016
Corporate Bond Payables:(1)(2)					
May 1, 2023	$ 500	2.25%	Semi-Annually	$ 497	$ 497
November 1, 2026	$ 1,000	2.38%	Semi-Annually	993	—
May 1, 2043	$ 500	3.63%	Semi-Annually	495	494
November 1, 2045	$ 1,000	3.88%	Semi-Annually	981	981
November 1, 2046	$ 500	3.38%	Semi-Annually	490	—
Promissory Notes:					
April 1, 2017	$ 40	6.20%	Monthly	—	38
Japanese Yen Notes:(3)					
August 20, 2001 through November 20, 2020	¥ 9,000	2.60%	Quarterly	14	18
August 20, 2001 through November 20, 2020	¥ 4,000	2.00%	Quarterly	7	9
Total				3,477	2,037
Less current maturities				6	44
TOTAL LONG-TERM DEBT				**$ 3,471**	**$ 1,993**

(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, 2018 through 2022 are $6 million, $6 million, $6 million, $3 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 $3,401 million at May 31, 2017 and $2,125 million at May 31, 2016.

NOTE 9 — Income Taxes

Income before income taxes is as follows:

(In millions)	Year Ended May 31, 2017	2016	2015
Income before income taxes:			
United States	$ 1,240	$ 956	$ 1,967
Foreign	3,646	3,667	2,238
TOTAL INCOME BEFORE INCOME TAXES	**$ 4,886**	**$ 4,623**	**$ 4,205**

The provision for income taxes is as follows:

(In millions)	Year Ended May 31, 2017	2016	2015
Current:			
United States			
Federal	$ 398	$ 304	$ 596
State	82	71	80
Foreign	439	568	369
Total	919	943	1,045
Deferred:			
United States			
Federal	(279)	(57)	(66)
State	(9)	(16)	(11)
Foreign	15	(7)	(36)
Total	(273)	(80)	(113)
TOTAL INCOME TAX EXPENSE	**$ 646**	**$ 863**	**$ 932**

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

	Year Ended May 31, 2017	2016	2015
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	1.1%	1.1%	0.9%
Foreign earnings	-20.7%	-18.2%	-14.8%
Resolution of a U.S. tax matter	-3.2%	—%	—%
Other, net	1.0%	0.8%	1.1%
EFFECTIVE INCOME TAX RATE	**13.2%**	**18.7%**	**22.2%**

The effective tax rate for the year ended May 31, 2017 was 550 basis points lower than the effective tax rate for the year ended May 31, 2016 primarily due to a one-time benefit in the first quarter of the fiscal year related to the resolution with the U.S. Internal Revenue Service (IRS) of a foreign tax credit matter and a decrease in foreign earnings taxed in the United States.

The effective tax rate for the year ended May 31, 2016 was 350 basis points lower than the effective tax rate for the year ended May 31, 2015 primarily due to an increase in the proportion of earnings from operations outside of the United States, which are generally subject to a lower tax rate.

Deferred tax assets and liabilities comprise the following:

(In millions)	As of May 31, 2017	2016
Deferred tax assets:		
Allowance for doubtful accounts	$ 4	$ 5
Inventories	90	88
Sales return reserves	130	182
Deferred compensation	348	274
Stock-based compensation	225	206
Reserves and accrued liabilities	84	78
Net operating loss carry-forwards	84	44
Foreign tax credit carry-forwards	208	—
Undistributed earnings of foreign subsidiaries	173	179
Other	106	72
Total deferred tax assets	1,452	1,128
Valuation allowance	(82)	(52)
Total deferred tax assets after valuation allowance	1,370	1,076
Deferred tax liabilities:		
Property, plant and equipment	(254)	(268)
Intangibles	(90)	(92)
Other	(2)	(4)
Total deferred tax liability	(346)	(364)
NET DEFERRED TAX ASSET	**$ 1,024**	**$ 712**

NOTE 15 — Commitments and Contingencies

The Company leases retail store space, certain distribution and warehouse facilities, and office space and other non-real estate assets under operating leases expiring from 1 to 17 years after May 31, 2017. Rent expense was $731 million, $661 million and $594 million for the years ended May 31, 2017, 2016 and 2015, respectively. Amounts of minimum future annual commitments under non-cancelable operating and capital leases are as follows (in millions):

	2018	2019	2020	2021	2022	Thereafter	Total
Operating leases	$ 537	$ 509	$ 438	$ 399	$ 350	$ 1,672	$ 3,905
Capital leases and other financing obligations(1)	$ 34	$ 32	$ 28	$ 25	$ 26	$ 225	$ 370

(1) Capital leases and other financing obligations include payments related to build-to-suit lease arrangements.

As of May 31, 2017 and 2016, the Company had letters of credit outstanding totaling $152 million and $157 million, respectively. These letters of credit were generally issued for the purchase of inventory and guarantees of the Company's performance under certain self-insurance and other programs.

In connection with various contracts and agreements, the Company provides routine indemnification relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items where the Company is acting as the guarantor. Currently, the Company has several such agreements in place. However, based on the Company's historical experience and the estimated probability of future loss, the Company has determined that 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.

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