NIKE INC
Form 10-Q
October 04, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
FOR QUARTERLY REPORTS UNDER SECTION 13 OR \(15(\mathrm{~d})\) OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the Quarter Ended August 31, 2007 Commission file number - 1-10635
NIKE, Inc.
(Exact name of registrant as specified in its charter)
OREGON -93-0584541
(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)
One Bowerman Drive, Beaverton, Oregon 97005-6453
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (503) 671-6453
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
``` No
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Yes X No
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Yes X No
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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer X Accelerated filer Non-accelerated filer
Indicate by check mark whether the registrant is a shell company (as defined in Rule \(12 \mathrm{~b}-2\) of the Exchange Act). Yes No X .
```

Common Stock shares outstanding as of August 31, 2007 were:

| Class A | $107,510,250$ |
| :--- | :--- |
| Class B | $391,230,757$ |

PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
NIKE, Inc.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| August 31, <br> 2007 | May 31, <br> 2007 |
| :---: | :---: |

(in millions)

## ASSETS

## Current assets:

Cash and equivalents
Short-term investments
Accounts receivable, net
Inventories (Note 2)
Deferred income taxes
Prepaid expenses and other current assets

Total current assets

Property, plant and equipment
Less accumulated depreciation

Property, plant and equipment, net

Identifiable intangible assets, net (Note 3)
Goodwill (Note 3)
Deferred income taxes and other assets

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:
Current portion of long-term debt $\quad \$ \quad 5.8$ \$ 30.5
Notes payable
Accounts payable
Accrued liabilities (Note 4)
Income taxes payable (Note 5)

Total current liabilities

Long-term debt
Deferred income taxes and other liabilities (Note 5)
Commitments and contingencies (Note 10)

| Redeemable preferred stock | 0.3 | 0.3 |
| :---: | :---: | :---: |
| Shareholders' equity: |  |  |
| Common stock at stated value: |  |  |
| Class A convertible-107.5 and |  |  |
| 117.6 million shares outstanding | 0.1 | 0.1 |
| Class B-391.2 and 384.1 million shares |  |  |
| outstanding | 2.7 | 2.7 |
| Capital in excess of stated value | 2,130.0 | 1,960.0 |
| Accumulated other comprehensive income (Note 6) | 204.2 | 177.4 |
| Retained earnings | 5,017.6 | 4,885.2 |
| Total shareholders' equity | 7,354.6 | 7,025.4 |
| Total liabilities and shareholders' equity | \$11,013.5 | \$10,688. 3 |

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME


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

NIKE, Inc.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  |  |  | ree Mont <br> Augus |  | Ended 3, |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | 2007 |  | 2006 |
|  |  |  | (in mi | 1 | ons) |
| Cash p | provided (used) by operations: |  |  |  |  |
|  | Net income | \$ | 569.7 | \$ | 377.2 |
|  | Income charges (credits) not affecting cash: Depreciation |  | $70.0$ |  | $66.9$ |
|  | Deferred income taxes |  | (104.8) |  | (1.9) |
|  | Stock-based compensation (Note 7) |  | 63.8 |  | 62.5 |
|  | Amortization and other |  | 1.6 |  | 14.3 |
|  | Changes in certain working capital components assets and liabilities: |  |  |  |  |
|  | Increase in accounts receivable |  | (257.3) |  | (164.3) |
|  | Increase in inventories |  | (20.0) |  | (73.9) |
|  | Increase in prepaid expenses and other assets |  | (1.9) |  | (47.9) |
|  | Decrease in accounts payable, accrued liabilities and income taxes payable |  | $(1.6)$ |  | (1.1) |
|  | Cash provided by operations |  | 319.5 |  | 231.8 |
| Cash p | provided (used) by investing activities: |  |  |  |  |
|  | Purchases of investments |  | (155.9) |  | (300.0) |
|  | Maturities of investments |  | 337.4 |  | 961.8 |
|  | Additions to property, plant and equipment |  | (91.8) |  | (72.3) |
|  | Proceeds from the sale of property, plant and equipment |  | 0.2 |  | 0.1 |
|  | Increase in other assets and liabilities, net |  | (1.2) |  | (5.5) |
|  | Cash provided by investing activities |  | 88.7 |  | 584.1 |
| Cash p | provided (used) by financing activities: |  |  |  |  |
|  | Reductions in long-term debt, including current portion |  | (26.4) |  | (251.4) |
|  | Increase in notes payable |  | 38.3 |  | 16.5 |
|  | Proceeds from exercise of stock options and other stock issuances |  | 96.7 |  | 30.1 |
|  | Excess tax benefits from share-based payment arrangements |  | 14.9 |  | 5.1 |


| Repurchase of common stock <br> Dividends on common stock | $(318.3)$ <br> $(92.8)$ | $(79.3)$ |
| :--- | ---: | :--- |
| Cash used by financing activities | $(287.6)$ |  |

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

NIKE, Inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end condensed consolidated balance sheet data as of May 31, 2007 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form $10-\mathrm{K}$. The results of operations for the three months ended August 31, 2007 are not necessarily indicative of results to be expected for the entire year.

On February 15, 2007 the Board of Directors declared a two-for-one stock split of the Company's Class A and Class B common shares, which was effected in the form of a $100 \%$ common stock dividend distributed on April 2, 2007. All references in the accompanying consolidated financial statements to share and per share amounts have been retroactively restated to reflect the two-for-one stock split.

Recently Adopted Accounting Standards:

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The Company adopted the

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provisions of FIN 48 on June 1, 2007. See Note 5 for further discussion.

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" ("EITF 06-2"). EITF 06-2 clarifies recognition guidance on the accrual of employees' rights to compensated absences under a sabbatical or other similar benefit arrangement. The adoption of EITF $06-2$ on June 1, 2007 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Standards:
In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 are effective for the fiscal year beginning June 1, 2008. The Company is currently evaluating the impact of the provisions of FAS 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of FAS 159 are effective for the fiscal year beginning June 1, 2008. The Company is currently evaluating the impact of the provisions of $F A S$ 159.

NOTE 2 - Inventories:

Inventory balances of $\$ 2,154.9$ million and $\$ 2,121.9$ million at August 31, 2007 and May 31, 2007, respectively, were substantially all finished goods.

NOTE 3 - Identifiable Intangible Assets and Goodwill:

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of August 31, 2007 and May 31, 2007:

August 31, 2007
May 31, 2007

| Gross <br> Carrying <br> Amount | Accumulated <br> Amortization | Gross <br> Carrying <br> Amount | Carrying <br> Amount | Accumulated <br> Amortization | Carrying |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | - |  |  |  |  |

Amortized intangible assets:

| Patents | \$ | 45.8 | \$ | (13.1) | \$ | 32.7 | \$ | 44.1 | \$ | (12.3) | \$ | 31.8 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Trademarks |  | 50.3 |  | (18.9) |  | 31.4 |  | 49.8 |  | (17.5) |  | 32.3 |
| Other |  | 21.6 |  | (17.7) |  | 3.9 |  | 21.6 |  | (17.3) |  | 4.3 |
| Total | \$ | 117.7 | \$ | (49.7) | \$ | 68.0 | \$ | 115.5 | \$ | (47.1) | \$ | 68.4 |


| Unamortized intangible assets - Trademarks | \$ 341.5 |
| :---: | :---: |
| Identifiable intangible assets, net | \$ 409.5 |
| Goodwill | \$ 130.8 |
| Amortization expense, which is included in selling and administrative |  |
| expense, was $\$ 2.7$ million and \$2.5 million for the three-month periods ended |  |
| August 31, 2007 and 2006, respectively. The estimated amortization expense for |  |
| intangible assets subject to amortization for each of the years ending May 31, |  |
| 2008 through May 31, 2012 are as follows: 2008: \$10.0 million; 2009: \$9.4 |  |
| million; 2010: \$8.9 million; 2011: \$8.4 million; 2012: \$7.7 million. |  |

NOTE 4 - Accrued Liabilities:

Accrued liabilities include the following:

August 31, 2007 May 31, 2007
(in millions)

| Compensation and benefits, excluding taxes | $\$ 308.4$ | $\$ 451.6$ |
| :--- | ---: | ---: |
| Taxes other than income taxes | 191.3 | 133.4 |
| Endorser compensation | 163.4 | 139.9 |
| Advertising and marketing | 115.2 | 70.6 |
| Fair value of derivatives | 95.2 | 90.5 |
| Dividends payable | 92.3 | 92.9 |
| Import and logistics costs | 84.8 | 81.4 |
| Otherl | 263.3 | 243.1 |
|  |  |  |
| Total accrued liabilities | $\$ 1,313.9$ | $\$ 1,303.4$ |

1 Other consists of various accrued expenses and no individual item accounted for more than $\$ 50$ million of the balance at August 31, 2007 and May 31, 2007.

NOTE 5 - Income Taxes:

The effective tax rate for the three months ended August 31, 2007 was $15.0 \%$. Over the last few years, several international entities generated losses for which the Company did not recognize offsetting tax benefits because the realization of those benefits was uncertain. The necessary steps to realize these benefits have now been taken resulting in a one-time reduction of the effective tax rate for the three months ended August 31, 2007 of 15.6 percentage points. Also reflected in the effective tax rate for the three months ended August 31,2007 is a reduction in our on-going effective tax rate resulting from our operations outside of the United States; our tax rates on

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these operations are generally lower than the U.S. statutory rate.

The Company adopted FIN 48 effective June 1, 2007. Upon adoption, the Company recognized an additional long-term liability of $\$ 89.4$ million for unrecognized tax benefits, $\$ 15.6$ million of which was recorded as a reduction to the Company's beginning retained earnings, and the remaining $\$ 73.8$ million was recorded as a reduction to the Company's noncurrent deferred tax liability. In addition, the Company reclassified $\$ 12.2$ million of unrecognized tax benefits from income taxes payable to other long term liabilities in conjunction with the adoption of FIN 48.

At the adoption date of June 1, 2007, the Company had $\$ 135.0$ million of total unrecognized tax benefits, including related interest and penalties, $\$ 52.0$ million of which would affect the Company's effective tax rate if recognized in future periods. As of August 31, 2007, there have been no material changes to the amount of unrecognized tax benefits. The Company does not anticipate that total unrecognized tax benefits will change significantly within the next 12 months.

The Company is subject to taxation primarily in the U.S., China and the Netherlands as well as various state and other foreign jurisdictions. The Company has concluded substantially all U.S. federal income tax matters through fiscal year 2004 . The Company is currently under audit by the Internal Revenue Service for the 2005 and 2006 tax years. The Company's major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar 1996 and fiscal 2001, respectively. The Company may resolve some or all of the issues related to tax matters and make payments to settle agreed upon liabilities. We do not anticipate that total gross unrecognized tax benefits will significantly change as a result of full or partial settlement of audits or the expiration of statutes of limitations within the next 12 months.

The Company recognizes interest and penalties related to income tax matters in income tax expense. Upon adoption at June 1, 2007, the Company had $\$ 32.0$ million accrued for interest and penalties related to uncertain tax positions. The liability for payment of interest and penalties did not significantly change during the three months ended August 31, 2007.

NOTE 6 - Comprehensive Income:

Comprehensive income, net of taxes, is as follows:

| Three Months Ended <br> August 31, |
| :---: |
| $2007 \quad 2006$ |
| $-\quad-$ |

(in millions)
Net income
$\$ 569.7 \$ 377.2$
Other comprehensive income:
Change in cumulative translation
adjustment and other 25.8
Changes due to cash flow hedging instruments:

| Net (loss) gain on hedge derivatives Reclassification to net income of previously deferred losses and (gains) related to hedge derivative instruments | $(13.2)$ $14.2$ | $\begin{aligned} & 19.0 \\ & (1.7) \end{aligned}$ |
| :---: | :---: | :---: |
| Other comprehensive income | 26.8 | 15.3 |
| Total comprehensive income | \$596.5 | \$392. 5 |

NOTE 7 - Stock-Based Compensation

A committee of the Board of Directors grants stock options and restricted stock under the NIKE, Inc. 1990 Stock Incentive Plan (the "1990 Plan"). The committee has granted substantially all stock options at $100 \%$ of the market price on the date of grant. Substantially all stock option grants outstanding under the 1990 Plan were granted in the first quarter of each fiscal year, vest ratably over four years, and expire 10 years from the date of grant. In addition to the 1990 Plan, the Company gives employees the right to purchase shares at a discount to the market price under employee stock purchase plans ("ESPPs").

The Company accounts for stock-based compensation in accordance with SFAS No. 123R "Share-Based Payment" ("FAS 123R"). Under FAS 123R, the Company estimates the fair value of options granted under the 1990 Plan and employees' purchase rights under the ESPPs using the Black-Scholes option pricing model. The Company recognizes this fair value as selling and administrative expense over the vesting period using the straight-line method.

The following table summarizes the Company's total stock-based compensation expense:

|  | Three Months Ended August 31, |  |
| :---: | :---: | :---: |
|  | 2007 | 2006 |
|  |  | ons) |
| Stock options1 | \$60.7 | \$59.5 |
| ESPPs | 1.6 | 1.8 |
| Restricted stock | 1.5 | 1.2 |
| Total stock-based compensation expense | \$63.8 | \$ 62.5 |

1 In accordance with FAS 123R, expense related to stock options reported during the three months ended August 31, 2007 and 2006 , includes $\$ 38.5$ and $\$ 33.9$ million, respectively, of accelerated stock option expense recorded for employees eligible for accelerated stock option vesting upon retirement.

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Because the Company usually grants the majority of stock options in a single grant in the first three months of each fiscal year, under FAS 123R, accelerated vesting will normally result in higher expense in the first three months of the fiscal year.

As of August 31, 2007, the Company had $\$ 159.2$ million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized as selling and administrative expense over a weighted average period of 2.6 years.

The weighted average fair value per share of the options granted during the three months ended August 31, 2007 and 2006 as computed using the BlackScholes pricing model was $\$ 13.87$ and $\$ 8.77$, respectively. The weighted average assumptions used to estimate these fair values are as follows:

|  | Three Months Ended <br> August 31, |  |
| :--- | :---: | :---: |
|  | 2007 | 2006 |
| Dividend yield | - | - |
| Expected volatility | $1.4 \%$ | $1.6 \%$ |
| Weighted-average expected life (in years) | $20.4 \%$ | $18.7 \%$ |
| Risk-free interest rate | 5.0 | 5.0 |
|  | $4.9 \%$ | $5.0 \%$ |


#### Abstract

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


NOTE 8 - Earnings Per Common Share:

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase an additional 6.8 million and 30.8 million shares of common stock were outstanding at August 31, 2007 and 2006, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive.

## Three Months Ended

August 31,

| 2007 | 2006 |
| :--- | :--- |

(in millions, except per share data)


NOTE 9 - Operating Segments:

The Company's operating segments are evidence of the structure of the Company's internal organization. The major segments are defined by geographic regions for operations participating in NIKE brand sales activity excluding NIKE Golf and NIKE Bauer Hockey. Each NIKE brand geographic segment operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment. The "Other" category shown below represents activities of Cole Haan Holdings Incorporated, Converse Inc., Exeter Brands Group LLC, Hurley International LLC, NIKE Bauer Hockey Corp., and NIKE Golf, which are considered immaterial for individual disclosure based on the aggregation criteria in SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information."

Where applicable, "Corporate" represents items necessary to reconcile to the consolidated financial statements, which generally include corporate activity and corporate eliminations.

Net revenues, as shown below, represent sales to external customers for each segment. Intercompany revenues have been eliminated and are immaterial for separate disclosure. The Company evaluates performance of individual operating segments based on pre-tax income. On a consolidated basis, this amount represents income before income taxes as shown in the Unaudited Condensed Consolidated Statements of Income. Reconciling items for pre-tax income represent corporate costs that are not allocated to the operating segments for management reporting including corporate activity, stock-based compensation expense, certain currency exchange rate gains and losses on transactions, and intercompany eliminations for specific income statement items in the Unaudited Condensed Consolidated Statements of Income.

Accounts receivable, net, inventories, and property, plant and equipment, net for operating segments are regularly reviewed and therefore provided below.

| Three Months Ended <br> August 31, |
| :--- |
| $2007 \quad 2006$ |

(in millions)

Net Revenue
U.S.

EUROPE, MIDDLE EAST, AFRICA
ASIA PACIFIC
AMERICAS
OTHER

| \$1,638.4 | \$1,601.9 |
| :---: | :---: |
| 1,477.7 | 1,270.9 |
| 630.8 | 518.4 |
| 279.5 | 242.5 |
| 628.7 | 560.4 |
| \$4,655.1 | \$4,194.1 |

Pre-tax Income
U.S.

EUROPE, MIDDLE EAST, AFRICA
ASIA PACIFIC
AMERICAS
OTHER
CORPORATE

| \$ | 347.3 | \$ | 355.7 |
| :---: | :---: | :---: | :---: |
|  | 375.5 |  | 310.6 |
|  | 159.5 |  | 104.9 |
|  | 57.9 |  | 49.7 |
|  | 95.2 |  | 87.4 |
|  | (365.1) |  | (332.5) |
| \$ | 670.3 | \$ | 575.8 |


| Aug. 31, May 31, |  |
| :---: | :---: |
| 2007 | 2007 |

(in millions)

Accounts receivable, net
U.S.

EUROPE, MIDDLE EAST, AFRICA
ASIA PACIFIC
AMERICAS
OTHER
CORPORATE

| \$ | 824.2 | \$ | 806.8 |
| :---: | :---: | :---: | :---: |
|  | 935.0 |  | 739.1 |
|  | 328.4 |  | 296.6 |
|  | 208.7 |  | 184.1 |
|  | 422.8 |  | 404.9 |
|  | 55.0 |  | 63.2 |
|  | 774.1 |  | 494.7 |

```
Inventories
    U.S.
    EUROPE, MIDDLE EAST, AFRICA
    ASIA PACIFIC
    AMERICAS
    OTHER
    CORPORATE
```

Property, plant and equipment, net
U.S.

| \$ 780.1 | \$ 796.0 |
| :---: | :---: |
| 557.4 | 554.5 |
| 237.5 | 214.1 |
| 148.8 | 132.0 |
| 379.0 | 378.7 |
| 52.1 | 46.6 |
| \$2,154.9 | \$2,121.9 |

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EUROPE, MIDDLE EAST, AFRICA

| 326.4 | 325.4 |
| :---: | :---: |
| 343.0 | 326.1 |
| 17.0 | 16.9 |
| 110.0 | 103.6 |
| 674.4 | 673.6 |
| \$1,717.6 | \$1,678.3 |

NOTE 10 - Commitments and Contingencies:

At August 31, 2007, the Company had letters of credit outstanding totaling $\$ 151.9$ million. These letters of credit were issued primarily for the purchase of inventory.

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

In the first quarter of fiscal 2008, our revenues grew 11\% to \$4.7 billion, net income grew 51\% to $\$ 569.7$ million and we delivered diluted earnings per share of $\$ 1.12$, a $51 \%$ increase compared to the first quarter of fiscal 2007.

First quarter results were positively affected by a reduction in our effective tax rate, from $34.5 \%$ in the first quarter of fiscal 2007, to 15.0\% in the first quarter of fiscal 2008. The reduction in the effective tax rate, which contributed approximately $\$ 0.20$ to diluted earnings per share, primarily reflects a one-time benefit related to the utilization of a tax benefit associated with past foreign losses. Net income for the quarter was also positively affected by improved gross margins, which grew 70 basis points compared to the first quarter of fiscal 2007 , driven primarily by revenue growth in our high margin businesses and by currency changes.

Results of Operations

(dollars in millions, except per share data)

Revenues

Cost of sales
Gross margin
Gross margin \%
Selling and administrative \% of revenue

Income before income taxes

Net income

Diluted earnings per share

| $\$ 4,655.1$ | $\$ 4,194.1$ | $11 \%$ |
| ---: | ---: | ---: |
| $2,568.1$ | $2,344.9$ | $10 \%$ |
| $2,087.0$ | $1,849.2$ | $13 \%$ |
| $44.8 \%$ | $44.1 \%$ |  |
| $1,434.7$ | $1,289.7$ | $11 \%$ |
| $30.8 \%$ | $30.8 \%$ |  |
| 670.3 | 575.8 | $16 \%$ |
|  |  | 377.2 |

Consolidated Operating Results

Revenues

| Three Months Ended <br> August 31, |
| :---: |
| 2007 |

(dollars in millions)
$\$ 4,655.1 \quad \$ 4,194.1$ 11\%

During the first quarter of fiscal 2008, changes in foreign currency exchange rates contributed 3 percentage points of consolidated revenue growth. All three of our product groups, all four of our geographic regions, and our businesses reported in "Other" delivered revenue growth. Excluding the effects of changes in currency exchange rates, our international regions contributed nearly 6 percentage points of the consolidated revenue growth for the quarter. Our Other businesses, comprised primarily of results from Cole Haan Holdings Incorporated, Converse Inc., Exeter Brands Group LLC, Hurley International LLC, NIKE Bauer Hockey Corp., and NIKE Golf, and the US Region, contributed the balance of revenue growth.

By product group, our NIKE brand footwear business reported revenue growth of $11 \%$ and contributed $\$ 245$ million of incremental revenue for the first quarter of fiscal 2008. Our NIKE brand equipment and apparel businesses grew $11 \%$ and $9 \%$, respectively, during the first quarter of fiscal 2008, and combined, added $\$ 147$ million of incremental revenue.

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Three Months Ended
August 31,

| 2007 | 2006 | $\%$ <br> change |
| :--- | :--- | :--- |

(dollars in millions)

Gross margin $\$ 2,087.0$ \$1,849.2 13\%
Gross margin \% 44.8\% 44.1\% 70 bps

For the first quarter of fiscal 2008, the primary factors contributing to the change in gross margins versus the prior year's first quarter were as follows:
(1) Improved gross margins in our high margin businesses, most notably in the Asia Pacific Region, driven by higher in-line gross pricing margins, margin improvement on closeout product resulting from reduced closeout inventories and a more favorable closeout mix, combined with reduced warehousing costs; and
(2) Favorable foreign exchange hedge results relative to the same period in the prior year, most notably in the Europe, Middle East and Africa ("EMEA") Region; offset by
(3) Higher sales discounts and lower margins on closeout product sales, most notably in the U.S. region.

Selling and Administrative Expense

|  | Three Months Ended August 31, |  |  |
| :---: | :---: | :---: | :---: |
|  | 2007 | 2006 | \% change |
|  | (dollars in millions) |  |  |
| Operating overhead expense | 881.6 | 787.7 | 12\% |
| Demand creation expense1 | 553.1 | 502.0 | 10\% |
| Selling and administrative |  |  |  |
| \% of revenues | 30.8\% | 30.8\% | 0 bps |

1 Demand creation consists of advertising and promotion expenses, including costs of endorsement contracts.

In the first quarter of 2008, currency exchange rates increased selling

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and administrative expense by 2 percentage points versus the prior year's first quarter.

Excluding changes in exchange rates, operating overhead increased 10\% during the first quarter of fiscal 2008 versus the comparable prior year period. This increase was primarily attributable to investments in growth drivers such as NIKE-owned retail and non-NIKE brands, the timing of contributions to the NIKE Foundation, and normal wage inflation and performance based compensation.

On a constant-currency basis, demand creation expense increased 7\% during the first quarter of fiscal 2008 compared to the same period in the prior year. The increase was primarily attributable to higher spending on sports marketing and internet digital demand creation, most notably the LeBron and Zoom advertising campaigns.

For the year, we expect selling and administrative expenses to grow slightly faster than revenue, as we accelerate retail development and continue to invest in demand creation and infrastructure to drive growth in our core product lines.

Other Expense (Income), net

|  |  | onths En gust 31, |  |
| :---: | :---: | :---: | :---: |
|  | 2007 | 2006 | change |
|  | (dol | in mil | ns) |
| Other expense (income), net | \$ 6.6 | \$(3.2) | $(306) \%$ |

Other expense (income), net is comprised substantially of gains and losses associated with the conversion of non-functional currency receivables and payables, the re-measurement of foreign currency derivative instruments, disposals of fixed assets, as well as other unusual or non-recurring transactions that are outside the normal course of business.

For the first quarter of fiscal 2008, Other expense (income), net was primarily comprised of foreign currency hedge losses. In the prior year's first quarter, the most significant components of Other expense (income), net were the favorable settlement of the Converse arbitration, offset by foreign currency hedge losses.

Foreign currency hedge gains and losses reported in Other expense (income), net are reflected in the Corporate line and the Converse arbitration settlement, which occurred in the first quarter of fiscal 2007, is reflected in the Other line in our segment presentation of pre-tax income in the Notes to Unaudited Condensed Consolidated Financial Statements (Note 9 - Operating Segments).

In the first quarter of fiscal 2008, we estimate that the combination of

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reduced currency hedge losses and the favorable translation of foreign currency-denominated profits from our international businesses, increased pre-tax income by approximately $\$ 33$ million versus the prior year quarter.

Income Taxes

Effective tax rate | Three Months Ended |
| :---: |
| August 31, |

Over the last few years, several of our international entities generated losses for which we did not recognize the corresponding tax benefits, as the realization of those benefits was uncertain. In the first quarter of fiscal 2008, we took the steps necessary to realize these benefits, resulting in a one-time tax benefit that contributed approximately $\$ 0.20$ to diluted earnings per share. Also reflected in the effective tax rate improvement versus the prior year was a reduction in our on-going effective tax rate resulting from our operations outside of the United States, as our tax rates on these operations are generally lower than the U.S. statutory rate. We estimate that our ongoing effective tax rate for the remainder of the fiscal year will be approximately 30.6\%

Futures Orders

Worldwide futures and advance orders for our footwear and apparel, scheduled for delivery from September 2007 through January 2008 , were over $11 \%$ higher than such orders reported for the comparable period of fiscal 2007. This futures growth rate is calculated based upon our forecasts of the actual exchange rates under which our revenues will be translated during this period, which approximate current spot rates. The net effect of changes in foreign currency exchange rates contributed approximately 1 percentage point to futures growth versus the same period in the prior year. Excluding this currency impact, unit sales volume increases for both footwear and apparel drove the growth in overall futures and advance orders. The reported futures and advance orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is due to year-over-year changes in shipment timing, and because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations and discounts can cause differences in the comparisons between advance/futures orders and actual revenues. Moreover, a significant portion of our revenue is not derived from futures and advance orders, including at-once and closeout sales of NIKE footwear and apparel, wholesale sales of equipment, Cole Haan, Converse, Exeter Brands Group, Hurley, NIKE Bauer Hockey, NIKE Golf and retail sales across all brands.

Operating Segments

The breakdown of revenues is as follows:

|  | Three Months Ended August 31, |  |  |
| :---: | :---: | :---: | :---: |
|  | 2007 | 2006 | \% change |
|  | (dollars in millions) |  |  |
| U.S. REGION |  |  |  |
| FOOTWEAR | \$1,119.9 | \$1,079.1 | 4\% |
| APPAREL | 428.0 | 431.5 | (1) \% |
| EQUIPMENT | 90.5 | 91.3 | (1) \% |
| TOTAL U.S. | $1,638.4$ | $1,601.9$ | $2 \%$ |
| EMEA REGION |  |  |  |
| FOOTWEAR | 791.9 | 679.5 | 17\% |
| APPAREL | 567.0 | 487.0 | 16\% |
| EQUIPMENT | 118.8 | 104.4 | 14\% |
| TOTAL EMEA | 1,477.7 | 1,270.9 | 16\% |
| ASIA PACIFIC REGION |  |  |  |
| FOOTWEAR | 332.1 | 266.0 | 25\% |
| APPAREL | 240.5 | 200.9 | 20\% |
| EQUIPMENT | 58.2 | 51.5 | 13\% |
| TOTAL ASIA PACIFIC | 630.8 | 518.4 | 22\% |
| AMERICAS REGION |  |  |  |
| FOOTWEAR | 198.4 | 172.3 | 15\% |
| APPAREL | 58.3 | 51.2 | 14\% |
| EQUIPMENT | 22.8 | 19.0 | 20\% |
| TOTAL AMERICAS | 279.5 | 242.5 | 15\% |
| TOTAL NIKE BRAND REVENUES | 4,026.4 | 3,633.7 | 11\% |
| OTHER | 628.7 | 560.4 | 12\% |
| TOTAL NIKE, INC. REVENUES | \$4,655.1 | \$4,194.1 | 11\% |

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|  | Three Months Ended August 31, |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2007 |  |  | 2006 | change |
|  | (dollars in millions) |  |  |  |  |
| U.S. Region | \$ | 347.3 |  | 355.7 | (2) \% |
| EMEA Region |  | 375.5 |  | 310.6 | 21\% |
| Asia Pacific Region |  | 159.5 |  | 104.9 | 52\% |
| Americas Region |  | 57.9 |  | 49.7 | 16\% |
| Other |  | 95.2 |  | 87.4 | 9\% |
| Corporate |  | (365.1) |  | (332.5) | (10) \% |
| Total pre-tax income |  | 670.3 |  | 575.8 | 16\% |

The following discussion includes disclosure of pre-tax income for our operating segments. We have reported pre-tax income for each of our operating segments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." As discussed in Note 9 - Operating Segments in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements, certain corporate costs are not included in pre-tax income of our operating segments.

## U.S. Region

| Three Months Ended |
| ---: |
| August 31, |

2007
(dollars in millions)
Revenues

| Footwear | $\$ 1,119.9$ | $\$ 1,079.1$ | $4 \%$ |
| :---: | ---: | ---: | ---: |
| Apparel | 428.0 | 431.5 | $(1) \%$ |
| Equipment | 90.5 | 91.3 | $(1) \%$ |
|  |  |  |  |
| Total revenues | $\$ 1,638.4$ | $\$ 1,601.9$ | $2 \%$ |
| Pre-tax income | $\$ 347.3$ | $\$ 355.7$ | $(2) \%$ |

For the first quarter of fiscal 2008, the increase in U.S. footwear revenue was attributable to high-single digit percentage growth in unit sales, partially offset by a mid-single digit decrease in the average selling price per pair. The growth in unit sales versus the comparable prior year period was driven by higher demand for our NIKE brand sport culture and

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Brand Jordan products. The decrease in average selling price per pair compared to the prior year quarter was primarily driven by a shift in mix from higher priced to lower priced models.

The slight decline in U.S. apparel revenues during the first quarter of fiscal 2008 reflected stable pricing combined with a slight decrease in unit sales, as sales of sport culture and Brand Jordan products declined versus the prior year quarter. These declines were partially offset by increased unit sales of performance apparel, including NIKE Pro and NIKE Sport essentials.

Pre-tax income for the U.S. Region was down slightly for the first quarter of fiscal 2008 versus the comparable prior year period, as lower gross margins offset the moderate growth in revenues. For the quarter, the gross margin decline was primarily attributable to higher sales discounts, an increase in closeout sales, and lower margins on closeout sales versus the comparable prior year period, partially offset by lower airfreight costs.

EMEA Region

| Three <br> Months Ended <br> August 31, |  |
| :---: | :---: |
| 2007 | 2006 |

(dollars in millions)
Revenues

| Footwear | $\$ \quad 791.9$ | $\$$ | 679.5 | $17 \%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Apparel | 567.0 |  | 487.0 | $16 \%$ |
| Equipment | 118.8 |  | 104.4 | $14 \%$ |
|  |  |  |  |  |
| Total revenues | $\$ 1,477.7$ | $\$ 1,270.9$ | $16 \%$ |  |
| Pre-tax income | $\$ 375.5$ | $\$ 310.6$ | $21 \%$ |  |

For the EMEA Region, changes in currency exchange rates contributed 7 percentage points of the revenue growth during the first quarter of fiscal 2008. Excluding changes in currency exchange rates, nearly all markets within the region increased revenues during the quarter. The U.K. grew 10\%, while the emerging markets in the region grew over $17 \%$, driven by strong results in Russia and South Africa. Increases in NIKE Retail and Northern Europe also contributed significantly to the revenue growth.

Excluding changes in exchange rates, footwear revenues increased 9 percentage points during the first quarter of fiscal 2008 compared to the same period in the prior year. The increase in footwear revenue was attributable to double-digit percentage growth in unit sales, partially offset by a decrease in average selling price per pair. The increase in unit sales was primarily driven by higher demand for our NIKE brand sport culture and men's sports performance products, including soccer and running products. The decrease in average selling price per pair resulted from a

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shift in product mix from higher priced to lower priced models, most notably within running and sports culture.

Excluding changes in exchange rates, apparel revenues also grew 9 percentage points during the first quarter of fiscal 2008 compared to the prior year quarter. The increase versus the prior year quarter was attributable to increased unit sales of NIKE brand apparel, combined with an increase in average selling prices.

The increase in EMEA pre-tax income for the first quarter of fiscal 2008 versus the comparable prior year period was driven by higher revenues, gross margin improvement, due principally to favorable foreign currency hedge results and improved inventory management, selling and administrative expense leverage and stronger European currencies.

```
Asia Pacific Region
```

| Three Months Ended <br> August 31, |
| :---: |
| 2007 |

(dollars in millions)
Revenues

| Footwear | \$ | 332.1 | \$ | 266.0 | 25\% |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Apparel |  | 240.5 |  | 200.9 | 20\% |
| Equipment |  | 58.2 |  | 51.5 | 13\% |
| Total revenues | \$ | 630.8 | \$ | 518.4 | 22\% |
| Pre-tax income | \$ | 159.5 | \$ | 104.9 | 52\% |

[^1]The increase in pre-tax income during the first quarter of fiscal 2008

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was the result of rapid revenue growth, expanding gross margins, selling and administrative expense leverage and favorable foreign currency translation. The gross margin improvement for the quarter was primarily driven by higher in-line gross pricing margins, margin improvement on closeout product resulting from reduced closeout inventories, and reduced warehousing costs, partially offset by higher sales incentives.

```
Americas Region
```

|  |  | Three Months Ended August 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2007 | 2006 |  | \% change |
|  |  | (dollars in millions) |  |  |  |
| Revenues |  |  |  |  |  |
| Footwear | \$ | 198.4 | \$ | 172.3 | 15\% |
| Apparel |  | 58.3 |  | 51.2 | 14\% |
| Equipment |  | 22.8 |  | 19.0 | 20\% |
| Total revenues | \$ | 279.5 | \$ | 242.5 | 15\% |
| Pre-tax income | \$ | 57.9 | \$ | 49.7 | 16\% |

In the Americas Region, changes in currency exchange rates contributed 4 percentage points of revenue growth for the first quarter of fiscal 2008. Excluding the changes in foreign currency exchange rates, double-digit percentage revenue growth in most markets within the region, led by Argentina and Mexico, more than offset softer results in Canada and Brazil.

The increase in pre-tax income for the first quarter of fiscal 2008 versus the comparable prior year period was primarily attributable to higher revenues and selling and administrative expense leverage, partially offset by a lower gross margin percentage.

Other Businesses

| Three Months Ended <br> August 31, |  |
| :---: | :---: |
| 2007 | 2006 |

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| Revenues | $\$ 628.7$ | $\$$ | 560.4 |
| :--- | :---: | :---: | :---: |
| Pre-tax income | 95.2 |  | 87.4 |

The increase in Other business revenues for the first quarter of fiscal 2008 versus the comparable prior year period was driven by double-digit percentage revenue growth at NIKE Bauer Hockey and Converse, which increased revenues $50 \%$ and $29 \%$ versus the prior year period, respectively.

During the first quarter of fiscal 2008, growth at NIKE Bauer Hockey and Converse, combined with margin improvement across nearly all businesses, contributed to the increase in pre-tax income versus the same period in the prior year. Pre-tax income for the first quarter of fiscal 2007 includes a $\$ 14.2$ million benefit relating to the settlement of an arbitration ruling involving Converse and a former South American licensee. Excluding this favorable settlement, first quarter 2008 pre-tax income for our Other businesses would have increased approximately $27 \%$ versus the comparable prior year period.

Liquidity and Capital Resources

## Cash Flow Activity

Cash provided by operations was $\$ 319.5$ million for the first quarter of fiscal 2008, compared to $\$ 231.8$ million for the first quarter of fiscal 2007. Our primary source of operating cash flow for the first quarter of 2008 was net income of $\$ 569.7$ million offset by an increase in working capital to support growth in the business. The increase in working capital during the first quarter of fiscal 2008 was largely due to an increase in accounts receivable, which was a function of our year-over-year revenue growth, most notably in our international regions.

Cash provided by investing activities was $\$ 88.7$ million for the first quarter of fiscal 2008, compared to $\$ 584.1$ million for the first quarter of fiscal 2007. The decrease versus fiscal 2007 was primarily due to lower net maturities of short-term investments (maturities net of purchases) as we liquidated more short-term investments for share repurchases in the first quarter of fiscal 2007 compared to the current year quarter.

Cash used in financing activities was $\$ 287.6$ million for the first Quarter of fiscal 2008, compared to $\$ 751.9$ million used in the first quarter of fiscal 2007. The fiscal 2007 amount was higher primarily due to a $\$ 250$ million repayment of corporate bonds and higher share repurchases.

In the first quarter of fiscal 2008 , we purchased 5.8 million shares of NIKE's Class B common stock for $\$ 321.5$ million. As of the end of the first quarter of fiscal 2008 , we have now repurchased 23.8 million shares for $\$ 1.1$ billion under the $\$ 3$ billion program approved by our Board of Directors in June 2006. We expect to fund share repurchases from operating cash flow, excess cash, and/or debt. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Dividends declared per share of common stock for the first quarter of fiscal 2008 were $\$ 0.185$, compared to $\$ 0.155$ in the first quarter of fiscal 2007 .

Contractual Obligations

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There have been no significant changes to the contractual obligations reported in our Annual Report on Form 10-K as of May 31, 2007 except as follows:

Upon adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48") on June 1, 2007, the total long term liability for uncertain tax positions was $\$ 135.0$ million. During the first quarter ended August 31, 2007, total unrecognized tax benefits did not significantly change. We are not able to reasonably estimate when, or if cash payments of the long-term liability for uncertain tax positions will occur.

## Capital Resources

Our long-term senior unsecured debt ratings remain at A+ and A2 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

Liquidity is also provided by our commercial paper program, under which there was no amount outstanding at August 31, 2007 or May 31, 2007. We currently have short-term debt ratings of A1 and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

We currently believe that cash generated by operations, together with access to external sources of funds as described above and in our Annual Report on Form 10-K for the fiscal year ended May 31, 2007, will be sufficient to meet our operating and capital needs in the foreseeable future.

## Recently Adopted Accounting Standards

In June 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in our financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." We adopted the provisions of FIN 48 on June 1, 2007 . See Note 5 in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements for further discussion.

In June 2006, the FASB ratified the consensus reached in Emerging Issues Task Force ("EITF") Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" ("EITF 06-2"). EITF 06-2 clarifies recognition guidance on the accrual of employees' rights to compensated absences under a sabbatical or other similar benefit arrangement. The adoption of EITF $06-2$ on June 1, 2007 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 are effective for our fiscal year beginning June 1 , 2008. We are currently evaluating the impact of the provisions of FAS 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of FAS 159 are effective for the fiscal year beginning June 1, 2008. We are currently evaluating the impact of the provisions of FAS

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159. 

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with 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.

We believe that the estimates, assumptions and judgments involved in the accounting policies described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our most recent Annual Report on Form 10-K have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. With the adoption of FIN 48 at the beginning of the first quarter of fiscal 2008, we have added additional information to our "Taxes" Critical Accounting Policy as described below. Actual results could differ from the estimates we use in applying our critical accounting policies. We are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

## Taxes

We account for uncertain tax positions in accordance with FIN 48. On a quarterly basis, we reevaluate the probability that 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. The Company recognizes interest and penalties related to income tax matters in income tax expense.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information previously reported under Item 7 A of our Annual Report on Form $10-\mathrm{K}$ for the fiscal year ended May 31, 2007.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act 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 costbenefit relationship of possible controls and procedures.

We carry out a variety of on-going procedures under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures. Based on the

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foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of August 31, 2007.

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

## Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historical information including estimates, projections, statements relating to NIKE's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, made or incorporated by reference from time to time by NIKE or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "project," "will be," "will continue," "will likely result," or words or phrases of similar meaning. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by NIKE with the Securities and Exchange Commission, including Forms 8-K, 10-Q, and 10-K, and include, among others, the following: international, national and local general economic and market conditions; the size and growth of the overall athletic footwear, apparel, and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic footwear, apparel, and equipment for consumers and endorsers; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products, and sports; seasonal and geographic demand for NIKE products; difficulties in anticipating or forecasting changes in consumer preferences, consumer demand for NIKE products, and the various market factors described above; difficulties in implementing, operating, and maintaining NIKE's increasingly complex information systems and controls, including, without limitation, the systems related to demand and supply planning, and inventory control; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance "futures" orders may not be indicative of future revenues due to changes in shipment timing, and the changing mix of futures and at-once orders; the ability of NIKE to sustain, manage or forecast its growth and inventories; the size, timing and mix of purchases of NIKE's products; new product development and introduction; the ability to secure and protect trademarks, patents, and other intellectual property performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas and political and economic instability; changes in government regulations; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

The risks included here are not exhaustive. Other sections of this report

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may include additional factors which could adversely affect NIKE's business and financial performance. Moreover, NIKE operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on NIKE's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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

> Part II - Other Information

Item 1. Legal Proceedings
There have been no significant developments with respect to the information previously reported under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2007.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Annual Report on Form $10-\mathrm{K}$ for the fiscal year ended May 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The following table presents a summary of share repurchases made by NIKE during the quarter ended August 31, 2007.

Period

| Total Number <br> Of Shares <br> Purchased | Average <br> Price Paid <br> Per Share | Shares Purchased as <br> Part of Publicly <br> Announced Plans <br> or Programs |
| :---: | :---: | :---: |

Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
(in millions)

| June 1-30, 2007 | $2,031,901$ | $\$ 54.55$ | $2,031,901$ | $\$ 2,076.5$ |
| :--- | :--- | :--- | :--- | :--- |
| July $1-31,2007$ | $1,620,600$ | $\$ 58.47$ | $1,620,600$ | $\$ 1,981.7$ |
| August $-31,2007$ | $2,104,600$ | $\$ 55.06$ | $2,104,600$ | $\$ 1,865.8$ |

Total 5,757,101 \$ 55.84 5,757,101
$=====================$

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Item 6. Exhibits
(a) EXHIBITS:
3.1 Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2005).
3.2 Third Restated Bylaws, as amended (incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K filed February 16, 2007).
4.1 Restated Articles of Incorporation, as amended (see Exhibit 3.1).
4.2 Third Restated Bylaws, as amended (see Exhibit 3.2).
31.1 Rule $13(a)-14(a)$ Certification of Chief Executive Officer.
31.2 Rule 13(a)-14(a) Certification of Chief Financial Officer.
32.1 Section 1350 Certificate of Chief Executive Officer.
32.2 Section 1350 Certificate of Chief Financial Officer.

SIGNATURES

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

NIKE, Inc.
an Oregon Corporation
/s/Donald W. Blair

Donald W. Blair
Chief Financial Officer

DATED: October 3, 2007


[^0]:    The breakdown of income before income taxes ("pre-tax income") follows:

[^1]:    In the Asia Pacific Region, changes in currency exchange rates contributed 2 percentage points of revenue growth for the first quarter of fiscal 2008 . While the majority of countries within the region reported double-digit percentage sales increases versus the prior year's first quarter, China continues to be the primary driver of growth, as revenues increased $50 \%$ on a currency-neutral basis. The revenue growth in China was primarily due to expansion in both the number of stores selling NIKE products and sales through existing retail doors. Constant-currency revenue in Japan decreased 5\% during the first quarter of fiscal 2008 versus the comparable prior year period due to year-over-year changes in the timing of shipments. Despite recent softness in this market, we continue to see positive signs, as orders received for the Fall, Holiday and Spring seasons are all up versus the prior year, and we're experiencing stronger sell-through and lower cancellations.

    Footwear revenue growth for the first quarter of fiscal 2008 reflected increased unit sales, most notably in China and Korea. The increase in apparel revenue for the quarter was also primarily driven by increased demand in China and Korea.

[^2]:    (dollars in millions)

