

Teladoc, Inc.
Form 10-Q
August 03, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission File Number: 001-37477

TELADOC, INC.

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(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	04-3705970 (I.R.S. Employer Identification No.)
2 Manhattanville Road, Suite 203 Purchase, New York (Address of principal executive office)	10577 (Zip code)

(203) 635-2002

(Registrant's telephone number including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of July 31, 2016, the Registrant had 45,705,392 shares of Common Stock outstanding.

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TELADOC, INC.

QUARTERLY REPORT ON FORM 10-Q

For the period ended June 30, 2016

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PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

TELADOC, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data, unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,781	\$ 55,066
Short-term investments	56,698	82,282
Accounts receivable, net of allowance of \$3,086 and \$1,812, respectively	13,209	12,134
Prepaid expenses and other current assets	1,661	2,096
Total current assets	127,349	151,578
Property and equipment, net	6,100	6,259
Goodwill	56,342	56,342
Intangible assets, net	13,794	15,265
Other assets	305	293
Total assets	\$ 203,890	\$ 229,737
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 506	\$ 2,213
Accrued expenses and other current liabilities	6,608	8,197
Accrued compensation	4,631	6,326
Long-term bank and other debt-current portion	4,250	1,250
Total current liabilities	15,995	17,986
Other liabilities	7,441	6,775
Deferred taxes	1,357	1,185
Long term bank and other debt, net	27,137	25,227
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 75,000,000 shares authorized as of June 30, 2016 and December 31, 2015; 38,744,118 shares and 38,524,922 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	39	38
Additional paid-in capital	312,589	309,078
Accumulated deficit	(160,693)	(130,510)

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Accumulated other comprehensive income (loss)	25	(42)
Total stockholders' equity	151,960	178,564
Total liabilities and stockholders' equity	\$ 203,890	\$ 229,737

See accompanying notes to unaudited consolidated financial statements.

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TELADOC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data, unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 26,488	\$ 18,283	\$ 53,376	\$ 34,771
Cost of revenue	6,891	4,793	14,834	10,074
Gross profit	19,597	13,490	38,542	24,697
Operating expenses:				
Advertising and marketing	7,804	4,730	15,854	9,071
Sales	5,860	4,397	11,130	8,079
Technology and development	4,829	3,203	10,054	6,109
Legal	1,666	5,332	2,788	6,817
Regulatory	772	733	1,620	1,010
General and administrative	11,570	10,423	23,207	20,629
Depreciation and amortization	1,558	923	3,066	1,826
Loss from operations	(14,462)	(16,251)	(29,177)	(28,844)
Interest income (expense), net	(407)	(642)	(834)	(1,210)
Net loss before taxes	(14,869)	(16,893)	(30,011)	(30,054)
Income tax (provision) benefit	(10)	(171)	(172)	287
Net loss	\$ (14,879)	\$ (17,064)	\$ (30,183)	\$ (29,767)
Net loss per share, basic and diluted	\$ (0.38)	\$ (7.20)	\$ (0.78)	\$ (13.13)
Weighted-average shares used to compute basic and diluted net loss per share	38,717,186	2,370,113	38,650,765	2,266,959

See accompanying notes to unaudited consolidated financial statements.

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TELADOC, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands, unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	\$ (14,879)	\$ (17,064)	\$ (30,183)	\$ (29,767)
Other comprehensive income, net of tax				
Net change in unrealized gains on available-for-sale securities	8			
Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs				
Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (In millions)				
March 1 — March 31, 2017				
	3,450,000			
	\$			
	56.87			
	3,450,000			
	\$			
	8,186			
April 1 — April 30, 2017				
	4,628,851			

\$
55.68

4,628,851

\$
7,929

May 1 — May 31, 2017

6,829,025

\$
53.61

6,829,025

\$
7,563

14,907,876

\$
55.00

14,907,876

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Performance Graph

The following graph demonstrates a five-year comparison of cumulative total returns for NIKE's Class B Common Stock, the Standard & Poor's 500 Stock Index, the Standard & Poor's Apparel, Accessories & Luxury Goods Index and the Dow Jones U.S. Footwear Index. The graph assumes an investment of \$100 on May 31, 2012 in each of our Class B Common Stock, and the stocks comprising the Standard & Poor's 500 Stock Index, the Standard & Poor's Apparel, Accessories & Luxury Goods Index and the Dow Jones U.S. Footwear Index. Each of the indices assumes that all dividends were reinvested on the day of issuance.

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

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

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

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

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ITEM 6. Selected Financial Data

Unless otherwise indicated, the following disclosures reflect the Company's continuing operations. All share and per share amounts are reflective of the two-for-one stock splits that began trading at split-adjusted prices on December 24, 2015 and December 26, 2012.

(In millions, except per share data and financial ratios)	Financial History				
	2017	2016	2015	2014	2013
Year Ended May 31,					
Revenues	\$34,350	\$32,376	\$30,601	\$27,799	\$25,313
Gross profit	15,312	14,971	14,067	12,446	11,034
Gross margin	44.6 %	46.2 %	46.0 %	44.8 %	43.6 %
Net income from continuing operations	4,240	3,760	3,273	2,693	2,451
Net income (loss) from discontinued operations	—	—	—	—	21
Net income	4,240	3,760	3,273	2,693	2,472
Earnings per common share from continuing operations:					
Basic	2.56	2.21	1.90	1.52	1.37
Diluted	2.51	2.16	1.85	1.49	1.34
Earnings per common share from discontinued operations:					
Basic	—	—	—	—	0.01
Diluted	—	—	—	—	0.01
Weighted average common shares outstanding	1,657.8	1,697.9	1,723.5	1,766.7	1,794.6
Diluted weighted average common shares outstanding	1,692.0	1,742.5	1,768.8	1,811.6	1,832.9
Cash dividends declared per common share	0.70	0.62	0.54	0.47	0.41
Cash flow from operations, inclusive of discontinued operations	3,640	3,096	4,680	3,013	3,032
Price range of common stock:					
High	60.33	68.19	52.75	40.13	32.96
Low	49.01	47.25	36.57	29.56	21.95
At May 31,					
Cash and equivalents	\$3,808	\$3,138	\$3,852	\$2,220	\$3,337
Short-term investments	2,371	2,319	2,072	2,922	2,628
Inventories	5,055	4,838	4,337	3,947	3,484
Working capital, excluding assets and liabilities of discontinued operations ⁽¹⁾	10,587	9,667	9,225	8,319	9,391
Total assets, excluding assets of discontinued operations ⁽¹⁾⁽²⁾	23,259	21,379	21,590	18,579	17,531
Long-term debt ⁽²⁾	3,471	1,993	1,072	1,191	1,201
Capital lease obligations ⁽³⁾	27	15	5	74	81
Redeemable preferred stock	0.3	0.3	0.3	0.3	0.3
Shareholders' equity	12,407	12,258	12,707	10,824	11,081
Year-end stock price	52.99	55.22	50.84	38.46	30.83
Market capitalization	87,084	92,867	87,044	66,921	55,124
Financial Ratios:					
Return on equity	34.4 %	30.1 %	27.8 %	24.6 %	23.1 %
Return on assets ⁽²⁾	19.0 %	17.5 %	16.3 %	14.9 %	15.3 %
Inventory turns	3.8	3.8	4.0	4.1	4.2
Current ratio at May 31	2.9	2.8	2.5	2.7	3.4
Price/Earnings ratio at May 31	21.1	25.6	27.5	25.9	22.8

Liabilities of discontinued operations were \$0 million, \$0 million, \$0 million, \$0 million and \$18 million for the (1) years ended May 31, 2017, 2016, 2015, 2014 and 2013, respectively. There were no assets of discontinued operations for the years presented.

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- Prior year amounts have been updated to reflect the adoption of Accounting Standards Update No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which
- (2) requires all debt issuance costs to be presented as a direct deduction from the carrying amount of the corresponding debt liability on the balance sheet. Refer to Recently Adopted Accounting Standards in Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements.
- (3) During the fiscal year ended May 31, 2015, the Company restructured the terms of certain capital leases, which subsequently qualified as operating leases.

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Selected Quarterly Financial Data

(Unaudited)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
(In millions, except per share data)	2017	2016	2017	2016	2017	2016	2017	2016
Revenues	\$9,061	\$8,414	\$8,180	\$7,686	\$8,432	\$8,032	\$8,677	\$8,244
Gross profit	4,123	3,995	3,616	3,501	3,750	3,689	3,823	3,786
Gross margin	45.5 %	47.5 %	44.2 %	45.6 %	44.5 %	45.9 %	44.1 %	45.9 %
Net income	1,249	1,179	842	785	1,141	950	1,008	846
Earnings per common share:								
Basic	0.75	0.69	0.51	0.46	0.69	0.56	0.61	0.50
Diluted	0.73	0.67	0.50	0.45	0.68	0.55	0.60	0.49
Weighted average common shares outstanding	1,672.0	1,709.0	1,659.1	1,706.5	1,653.1	1,693.8	1,646.9	1,682.4
Diluted weighted average common shares outstanding	1,708.9	1,754.5	1,693.2	1,751.4	1,686.3	1,737.3	1,678.6	1,723.1
Cash dividends declared per common share	0.16	0.14	0.18	0.16	0.18	0.16	0.18	0.16
Price range of common stock:								
High	60.33	58.86	59.18	67.65	58.42	68.19	59.00	65.44
Low	51.48	47.25	49.01	54.01	50.06	53.64	50.81	55.17

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ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

NIKE designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services worldwide. We are the largest seller of athletic footwear and apparel in the world. We sell our products to retail accounts, through NIKE-owned in-line and factory retail stores and NIKE-owned internet websites and mobile applications (which we refer to collectively as our “Direct to Consumer” or “DTC” operations), and through a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Our goal is to deliver value to our shareholders by building a profitable global portfolio of branded footwear, apparel, equipment and accessories businesses. Our strategy is to achieve long-term revenue growth by creating innovative, “must have” products, building deep personal consumer connections with our brands and delivering compelling consumer experiences at retail, online and through mobile applications.

In June 2017, we announced the Consumer Direct Offense, a new company alignment designed to allow NIKE to better serve the consumer personally, at scale. Leveraging the power of digital, NIKE will drive growth — by accelerating innovation and product creation, moving even closer to the consumer through key cities, and deepening one-to-one connections.

In addition to achieving long-term, sustainable revenue growth, we continue to strive to deliver shareholder value by driving operational excellence in several key areas:

Expanding gross margin by:

- Delivering innovative, premium products that command higher prices while maintaining a balanced price-to-value equation for consumers;
- Reducing product costs through a continued focus on manufacturing efficiency, product design and innovation;
- Making our supply chain a competitive advantage by investing in new technologies that increase automation, help reduce waste and have long-term potential to increase both customization of our products and speed to market; and
- Driving growth in our higher gross margin DTC business, led by digital commerce, as part of an integrated marketplace growth strategy across our DTC and wholesale operations.

Optimizing selling and administrative expense by focusing on:

- Investments in consumer engagement that drive economic returns in the form of incremental revenue and gross profit;
- Infrastructure investments that improve the efficiency and effectiveness of our operations; and
- Investments in key areas of future growth, including our DTC business.

Managing working capital efficiency; and

Deploying capital effectively.

Through execution of this strategy, our long-term financial goals through fiscal 2020, on average per year, are as follows:

High single-digit to low double-digit revenue growth;

Mid-teens earnings per share growth;

High-twenties to low-thirties percentage rate of return on invested capital;

Free cash flow growing faster than net income; and

Sustainable, profitable, long-term growth through effective management of our diversified portfolio of businesses.

Over the past ten years, we have achieved many of our financial goals. During this time, revenues and diluted earnings per common share for NIKE, Inc., inclusive of both continuing and discontinued operations, have grown 8% and 13%, respectively, on an annual compounded basis. We expanded gross margin by approximately 70 basis points, and our return on invested capital has increased from 21.9% to 34.7%.

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

Our fiscal 2017 results demonstrated the power of the NIKE, Inc. portfolio to deliver continued growth and expanding profitability. Despite foreign currency headwinds, we achieved record revenues and earnings per share for fiscal 2017. NIKE, Inc. Revenues grew 6% to \$34.4 billion, Net income increased 13% and diluted earnings per common share

grew 16% to \$2.51. We also delivered strong cash returns to shareholders while investing for long-term growth. Earnings before interest and income taxes (“EBIT”) increased 7% for fiscal 2017, driven by revenue growth and selling and administrative expense leverage, partially offset by gross margin contraction. The increase in revenues was driven by growth across all NIKE Brand geographies and Converse, footwear and apparel, and several key categories. This broad-based growth was primarily fueled by:

- Innovative performance and sportswear products, incorporating proprietary technology platforms such as NIKE Air, Free, Zoom, Lunar, Flywire, Dri-Fit and Flyknit;

- Deep brand connections with consumers through our category offense, reinforced by investments in endorsements by high-profile athletes, sports teams and leagues, high-impact marketing around global sporting events and digital marketing; and

- Strong category retail presentation through digital commerce and NIKE-owned and retail partner stores.

NIKE, Inc. gross margin decreased 160 basis points primarily due to higher product costs and foreign currency exchange rate headwinds, which more than offset higher full-price average selling price (ASP). At current rates, we anticipate foreign currency exchange rate headwinds will continue to negatively impact gross margin and Net income in fiscal 2018.

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Converse revenues increased 4% and EBIT declined 2%, as growth in direct distribution markets and lower selling and administrative expense were more than offset by lower gross margin, primarily a result of the negative impact of changes in foreign currency exchange rates and higher product costs, as well as the unfavorable impact of lower licensing revenues primarily due to market transitions.

For fiscal 2017, the growth in Net income was positively affected by a year-over-year decrease in our effective tax rate of 550 basis points 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. Diluted earnings per common share grew at a higher rate than Net income due to a 3% decrease in the weighted average diluted common shares outstanding, driven by our share repurchase program. While foreign currency markets remain volatile, we continue to see opportunities to drive future growth and profitability, and remain committed to effectively managing our business to achieve our financial goals over the long-term by executing against the operational strategies outlined above.

Use of Non-GAAP Financial Measures

Throughout this Annual Report on Form 10-K, we discuss non-GAAP financial measures, including references to wholesale equivalent revenues and currency-neutral revenues, which should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). References to wholesale equivalent revenues are intended to provide context as to the total size of our NIKE Brand market footprint if we had no Direct to Consumer operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our Direct to Consumer operations, which are charged at prices that are comparable to prices charged to external wholesale customers. Additionally, currency-neutral revenues are calculated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends excluding the impact of translation arising from foreign currency exchange rate fluctuations.

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

Results of Operations

(Dollars in millions, except per share data)	Fiscal 2017	Fiscal 2016	% Change	Fiscal 2015	% Change
Revenues	\$34,350	\$32,376	6 %	\$30,601	6 %
Cost of sales	19,038	17,405	9 %	16,534	5 %
Gross profit	15,312	14,971	2 %	14,067	6 %
Gross margin	44.6 %	46.2 %		46.0 %	
Demand creation expense	3,341	3,278	2 %	3,213	2 %
Operating overhead expense	7,222	7,191	0 %	6,679	8 %
Total selling and administrative expense	10,563	10,469	1 %	9,892	6 %
% of revenues	30.8 %	32.3 %		32.3 %	
Interest expense (income), net	59	19	—	28	—
Other (income) expense, net	(196)	(140)	—	(58)	—
Income before income taxes	4,886	4,623	6 %	4,205	10 %
Income tax expense	646	863	-25 %	932	-7 %
Effective tax rate	13.2 %	18.7 %		22.2 %	
NET INCOME	\$4,240	\$3,760	13 %	\$3,273	15 %
Diluted earnings per common share	\$2.51	\$2.16	16 %	\$1.85	17 %

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Consolidated Operating Results

Revenues

(Dollars in millions)	Fiscal 2017	Fiscal 2016 ⁽¹⁾	% Change	% Change		% Change		
				Excluding Currency Changes ⁽²⁾	Fiscal 2015 ⁽¹⁾	Excluding Currency Changes ⁽²⁾		
NIKE, Inc. Revenues:								
NIKE Brand Revenues by:								
Footwear	\$21,081	\$19,871	6	% 8	%	\$18,318	8	% 15
Apparel	9,654	9,067	6	% 9	%	8,637	5	% 11
Equipment	1,425	1,496	-5	% -3	%	1,631	-8	% -2
Global Brand Divisions ⁽³⁾	73	73	0	% 2	%	115	-37	% -30
Total NIKE Brand Revenues	32,233	30,507	6	% 8	%	28,701	6	% 13
Converse	2,042	1,955	4	% 6	%	1,982	-1	% 2
Corporate ⁽⁴⁾	75	(86))—	—		(82))—	—
TOTAL NIKE, INC. REVENUES	\$34,350	\$32,376	6	% 8	%	\$30,601	6	% 12
Supplemental NIKE Brand Revenues Details:								
NIKE Brand Revenues by:								
Sales to Wholesale Customers	\$23,078	\$22,577	2	% 5	%	\$21,952	3	% 9
Sales Direct to Consumer	9,082	7,857	16	% 18	%	6,634	18	% 25
Global Brand Divisions ⁽³⁾	73	73	0	% 2	%	115	-37	% -30
TOTAL NIKE BRAND REVENUES	\$32,233	\$30,507	6	% 8	%	\$28,701	6	% 13
NIKE Brand Revenues on a Wholesale Equivalent Basis: ⁽⁵⁾								
Sales to Wholesale Customers	\$23,078	\$22,577	2	% 5	%	\$21,952	3	% 9
Sales from our Wholesale Operations to Direct to Consumer Operations	5,616	4,672	20	% 22	%	3,881	20	% 27
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	\$28,694	\$27,249	5	% 8	%	\$25,833	5	% 12
NIKE Brand Wholesale Equivalent Revenues by: ⁽⁵⁾								
Men's	\$16,041	\$15,410	4	% 6	%	\$14,689	5	% 11
Women's	6,644	6,296	6	% 8	%	5,732	10	% 17
Young Athletes'	4,838	4,560	6	% 8	%	4,301	6	% 11
Others ⁽⁶⁾	1,171	983	19	% 21	%	1,111	-12	% -4
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	\$28,694	\$27,249	5	% 8	%	\$25,833	5	% 12
NIKE Brand Wholesale Equivalent Revenues by: ⁽⁵⁾								
Running	\$5,278	\$5,017	5	% 8	%	\$4,863	3	% 10
NIKE Basketball	1,292	1,378	-6	% -5	%	1,385	-1	% 2
Jordan Brand	3,099	2,753	13	% 13	%	2,329	18	% 21
Football (Soccer)	1,987	2,143	-7	% -4	%	2,250	-5	% 7
Men's Training	2,617	2,611	0	% 1	%	2,545	3	% 6
Women's Training	1,265	1,344	-6	% -4	%	1,281	5	% 11
Action Sports	596	655	-9	% -7	%	667	-2	% 3
Sportswear	8,587	7,513	14	% 17	%	6,604	14	% 22
Golf	579	706	-18	% -18	%	769	-8	% -6
Others ⁽⁷⁾	3,394	3,129	8	% 11	%	3,140	0	% 6
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	\$28,694	\$27,249	5	% 8	%	\$25,833	5	% 12

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- (1) Certain prior year amounts have been reclassified to conform to fiscal 2017 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.
Results have been restated using actual exchange rates in use during the comparative prior year period to enhance
- (2) the visibility of the underlying business trends excluding the impact of translation arising from foreign currency exchange rate fluctuations, which is considered a non-GAAP financial measure.
- (3) Global Brand Divisions revenues are primarily attributable to NIKE Brand licensing businesses that are not part of a geographic operating segment.
Corporate revenues primarily consist of foreign currency hedge gains and losses related to revenues generated by
- (4) entities within the NIKE Brand geographic operating segments and Converse but managed through our central foreign exchange risk management program.
References to NIKE Brand wholesale equivalent revenues, which are considered non-GAAP financial measures, are intended to provide context as to the total size of our NIKE Brand market footprint if we had no Direct to
- (5) Consumer operations. NIKE Brand wholesale equivalent revenues consist of (1) sales to external wholesale customers and (2) internal sales from our wholesale operations to our Direct to Consumer operations, which are charged at prices that are comparable to prices charged to external wholesale customers.
- (6) Others include all unisex products, equipment and other products not allocated to Men's, Women's and Young Athletes', as well as certain adjustments that are not allocated to products designated by gender or age.
- (7) Others include all other categories and certain adjustments that are not allocated at the category level.

Fiscal 2017 Compared to Fiscal 2016

On a constant-currency basis, NIKE, Inc. Revenues grew 8% for fiscal 2017, primarily driven by higher revenues for the NIKE Brand and Converse. All NIKE Brand geographies delivered higher revenues for fiscal 2017 as our category offense continued to deliver innovative products, deep brand connections and compelling retail experiences to consumers online and at NIKE-owned and retail partner stores, driving demand for NIKE Brand products. Revenue growth was broad-based as Greater China, Western Europe, Emerging Markets and North America each contributed approximately 2 percentage points of the increase in NIKE, Inc. Revenues.

On a currency-neutral basis, NIKE Brand footwear and apparel revenues increased 8% and 9%, respectively, for fiscal 2017, while NIKE Brand equipment revenues decreased 3%. On a category basis, the increase in NIKE Brand footwear revenues was driven by strong growth in Sportswear, the Jordan Brand and Running. Footwear unit sales for fiscal 2017 increased 7%, with higher ASP per pair contributing approximately 1 percentage point of footwear revenue growth, primarily driven by higher full-price and off-price ASPs, partially offset by the impact of higher off-price sales.

The constant-currency increase in NIKE Brand apparel revenues for fiscal 2017 was fueled by growth in several key categories, most notably Sportswear, Men's Training and Running. Unit sales of apparel increased 6%, while higher ASP per unit contributed approximately 3 percentage points of apparel revenue growth, primarily due to higher full-price ASP and, to a lesser extent, growth in our higher-priced DTC business.

While wholesale revenues remain the largest component of overall NIKE Brand revenues, we continue to expand our DTC businesses in each of our geographies. Our NIKE Brand DTC operations include NIKE-owned in-line and factory stores, as well as NIKE-owned digital commerce. For fiscal 2017, DTC revenues represented approximately 28% of our total NIKE Brand revenues compared to 26% for fiscal 2016. On a currency-neutral basis, DTC revenues increased 18% for fiscal 2017, driven by strong digital commerce sales growth of 30%, the addition of new stores and 7% comparable store sales growth. Comparable store sales include revenues from NIKE-owned in-line and factory stores for which all three of the following requirements have been met: (1) the store has been open at least one year, (2) square footage has not changed by more than 15% within the past year and (3) the store has not been permanently repositioned within the past year. On a reported basis, digital commerce sales through NIKE-owned websites and mobile applications, which are not included in comparable store sales, were \$2.2 billion for fiscal 2017 compared to \$1.7 billion for fiscal 2016 and represented approximately 24% of our total NIKE Brand DTC revenues for fiscal 2017 compared to 22% for fiscal 2016.

On a wholesale equivalent and currency-neutral basis, fiscal 2017 NIKE Brand Men's revenues increased 6%, driven by significant growth in Sportswear, Running and the Jordan Brand, while Women's revenues increased 8%, led by

growth in Sportswear and Running. Revenues for our Young Athletes' business increased 8%, with growth across multiple categories, most notably the Jordan Brand.

Fiscal 2016 Compared to Fiscal 2015

On a currency-neutral basis, NIKE, Inc. Revenues grew 12% for fiscal 2016, primarily driven by higher revenues for the NIKE Brand. Every NIKE Brand geography grew revenues for fiscal 2016. North America contributed approximately 4 percentage points of the increase in NIKE, Inc. Revenues, while Greater China and Western Europe each contributed approximately 3 percentage points, Emerging Markets contributed approximately 2 percentage points and Central & Eastern Europe contributed approximately 1 percentage point.

On a constant-currency basis, NIKE Brand footwear and apparel revenues increased 15% and 11%, respectively, for fiscal 2016, while NIKE Brand equipment revenues decreased 2%. The increase in NIKE Brand footwear revenues for fiscal 2016 was driven by growth in nearly every key category, including strong growth in Sportswear, the Jordan Brand and Running. Footwear unit sales for fiscal 2016 increased 9%, with higher ASP per pair contributing approximately 6 percentage points of footwear revenue growth. Higher ASP per pair was driven by higher full-price ASP, and to a lesser extent, the favorable impact of an increase in the proportion of revenues from our higher-priced DTC business.

The constant-currency increase in NIKE Brand apparel revenues for fiscal 2016 was attributable to growth in most key categories, led by Sportswear, Men's Training, Running, Women's Training and Football (Soccer). Apparel unit sales for fiscal 2016 increased 7%. Higher ASP per unit contributed approximately 4 percentage points of apparel revenue growth, primarily due to higher full-price ASP and growth in our higher-priced DTC business.

For fiscal 2016, DTC revenues represented approximately 26% of our total NIKE Brand revenues compared to 23% in fiscal 2015. On a currency-neutral basis, DTC revenues increased 25% for fiscal 2016, driven by strong digital commerce sales growth, the addition of new stores and comparable store sales growth of 10%. Digital commerce sales through NIKE-owned websites, which are not included in comparable store sales, grew 51% in fiscal 2016. Digital commerce sales grew 59% in fiscal 2015. For fiscal 2016, digital commerce sales represented approximately 22% of our total NIKE Brand DTC revenues compared to 18% for fiscal 2015.

On a wholesale equivalent basis and excluding the effects of changes in foreign currency exchange rates, fiscal 2016 NIKE Brand Men's revenues increased 11%, driven by growth in Sportswear and the Jordan Brand, while Women's revenues increased 17%, led by Sportswear, Running and Women's Training. Revenues for our Young Athletes' business increased 11%, with growth across multiple categories, most notably the Jordan Brand.

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Futures Orders

Futures orders for NIKE Brand footwear and apparel scheduled for delivery from June through November 2017 totaled \$14.7 billion, 2% lower than the orders reported for the comparable prior year period. NIKE Brand futures orders include (1) orders from external wholesale customers and (2) internal orders from our DTC in-line stores and digital commerce operations, which are reflected at prices that are comparable to prices charged to external wholesale customers. The U.S. Dollar futures orders amount is calculated based upon our internal forecast of the currency exchange rates under which our revenues will be translated during this period.

By geography, futures orders were as follows:

	Reported Futures Orders		Excluding Currency Changes ⁽¹⁾	
North America	-10	%	-10	%
Western Europe	1	%	3	%
Central & Eastern Europe	-3	%	-1	%
Greater China	7	%	12	%
Japan	-7	%	3	%
Emerging Markets	9	%	12	%
TOTAL NIKE BRAND FUTURES ORDERS	-2	%	0	%

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

Gross Margin

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	Fiscal 2015	% Change
Gross profit	\$15,312	\$14,971	2 %	\$14,067	6 %
Gross margin	44.6 %	46.2 %	(160) bps	46.0 %	20 bps

Fiscal 2017 Compared to Fiscal 2016

For fiscal 2017, our consolidated gross margin was 160 basis points lower than fiscal 2016, primarily driven by the following factors:

- Higher NIKE Brand full-price ASP, net of discounts, (increasing gross margin approximately 70 basis points) aligned with our strategy to deliver innovative, premium products to the consumer;
- Higher NIKE Brand product costs (decreasing gross margin approximately 100 basis points) as an increase in the mix of higher cost products and labor input cost inflation more than offset lower material input costs;
- Unfavorable changes in foreign currency exchange rates, net of hedges, (decreasing gross margin approximately 90 basis points); and
- Lower NIKE Brand DTC margins (decreasing gross margin approximately 20 basis points) reflecting the impact of higher off-price sales.

Fiscal 2016 Compared to Fiscal 2015

For fiscal 2016, our consolidated gross margin was 20 basis points higher than fiscal 2015, primarily attributable to the following factors:

-

Higher NIKE Brand full-price ASP, net of discounts, (increasing gross margin approximately 190 basis points) aligned with our strategy to deliver innovative, premium products with higher prices and, to a lesser extent, due to price increases reflecting inflationary conditions in certain territories;

• Growth in our higher-margin DTC business (increasing gross margin approximately 20 basis points);

• Higher NIKE Brand product costs (decreasing gross margin approximately 70 basis points) as shifts in mix to higher-cost products and labor input cost inflation were only partially offset by lower material input costs;

• Higher off-price mix (decreasing gross margin approximately 30 basis points), primarily reflecting the impacts from clearing excess inventory in North America;

• Unfavorable changes in foreign currency exchange rates, net of hedges, (decreasing gross margin approximately 40 basis points);

• Higher other costs (decreasing gross margin approximately 20 basis points), primarily due to higher product design and development costs; and

• Lower gross margin from Converse (decreasing gross margin approximately 20 basis points), primarily resulting from shifts in mix to lower-margin products.

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Total Selling and Administrative Expense

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	Fiscal 2015	% Change
Demand creation expense ⁽¹⁾	\$3,341	\$3,278	2	% \$3,213	2 %
Operating overhead expense	7,222	7,191	0	% 6,679	8 %
Total selling and administrative expense	\$10,563	\$10,469	1	% \$9,892	6 %
% of revenues	30.8	% 32.3	% (150) bps	32.3	% —

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

Fiscal 2017 Compared to Fiscal 2016

Demand creation expense increased 2% for fiscal 2017 compared to fiscal 2016, driven by higher sports marketing costs, as well as higher marketing and advertising costs, primarily to support key sporting events including the Rio Olympics and European Football Championship. These increases were partially offset by lower retail brand presentation costs. Changes in foreign currency exchange rates reduced Demand creation expense by approximately 1 percentage point.

Operating overhead expense was flat compared to fiscal 2016 as continued investments in our growing DTC business were offset by administrative cost efficiencies and lower variable compensation. Changes in foreign currency exchange rates reduced Operating overhead expense by approximately 1 percentage point for fiscal 2017.

Fiscal 2016 Compared to Fiscal 2015

Demand creation expense increased 2% for fiscal 2016 compared to fiscal 2015, primarily due to investments in digital brand marketing, including for our DTC business, as well as support for key brand events and initiatives, and sports marketing investments, partially offset by lower advertising expense. For fiscal 2016, changes in foreign currency exchange rates decreased growth in Demand creation expense by approximately 6 percentage points. Operating overhead expense increased 8% compared to fiscal 2015, primarily as a result of continued investments in our DTC business, including new store openings and higher variable expenses, as well as higher wage-related expenses and investments in consumer-focused digital capabilities, partially offset by lower variable compensation. Changes in foreign currency exchange rates decreased growth in Operating overhead expense by approximately 4 percentage points for fiscal 2016.

Other (Income) Expense, Net

(In millions)	Fiscal 2017	Fiscal 2016	Fiscal 2015
Other (income) expense, net	\$(196)	\$(140)	\$(58)

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

Fiscal 2017 Compared to Fiscal 2016

Other (income) expense, net increased from \$140 million of other income, net for fiscal 2016 to \$196 million of other income, net for fiscal 2017, primarily due to a \$56 million net beneficial change in foreign currency conversion gains and losses.

We estimate the combination of the translation of foreign currency-denominated profits from our international businesses and the year-over-year change in foreign currency-related gains and losses included in Other (income) expense, net had an unfavorable impact on our Income before income taxes of \$59 million for fiscal 2017.

Fiscal 2016 Compared to Fiscal 2015

Other (income) expense, net increased from \$58 million of other income, net for fiscal 2015 to \$140 million of other income, net for fiscal 2016, driven by a \$26 million net change in foreign currency conversion gains and losses, a favorable settlement of a legal judgment related to a bankruptcy case in Western Europe and net gains from other non-operating items.

We estimate the combination of the translation of foreign currency-denominated profits from our international businesses and the year-over-year change in foreign currency-related gains and losses included in Other (income)

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expense, net had an unfavorable impact on our Income before income taxes of \$423 million for fiscal 2016.
Income Taxes

	Fiscal 2017	Fiscal 2016	% Change	Fiscal 2015	% Change
Effective tax rate	13.2	% 18.7	% (550) bps	22.2	% (350) bps

Fiscal 2017 Compared to Fiscal 2016

The 550 basis point decrease in our effective tax rate for the fiscal year was primarily due to a one-time benefit in the first quarter of the fiscal year related to the resolution with the IRS of a foreign tax credit matter and a decrease in foreign earnings taxed in the United States.

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Fiscal 2016 Compared to Fiscal 2015

The 350 basis point decrease in our effective tax rate for the fiscal year was primarily due to an increase in the proportion of earnings from operations outside the United States, which are generally subject to a lower tax rate.

Operating Segments

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

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

The breakdown of revenues is as follows:

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change Excluding Currency Changes ⁽¹⁾		Fiscal 2015	% Change	% Change Excluding Currency Changes ⁽¹⁾			
				%	%			%	%		
North America	\$15,216	\$14,764	3	%	3	%	\$13,740	7	%	8	%
Western Europe	6,211	5,884	6	%	11	%	5,705	3	%	14	%
Central & Eastern Europe	1,487	1,431	4	%	7	%	1,421	1	%	17	%
Greater China	4,237	3,785	12	%	17	%	3,067	23	%	27	%
Japan	1,014	869	17	%	7	%	755	15	%	22	%
Emerging Markets	3,995	3,701	8	%	14	%	3,898	-5	%	13	%
Global Brand Divisions ⁽²⁾	73	73	0	%	2	%	115	-37	%	-30	%
Total NIKE Brand Revenues	32,233	30,507	6	%	8	%	28,701	6	%	13	%
Converse	2,042	1,955	4	%	6	%	1,982	-1	%	2	%
Corporate ⁽³⁾	75	(86))	—	—		(82))	—	—	
TOTAL NIKE, INC. REVENUES	\$34,350	\$32,376	6	%	8	%	\$30,601	6	%	12	%

Results have been restated using actual exchange rates in use during the comparative prior year period to enhance (1) the visibility of the underlying business trends excluding the impact of translation arising from foreign currency exchange rate fluctuations, which is considered a non-GAAP financial measure.

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

Corporate revenues primarily consist of foreign currency hedge gains and losses related to revenues generated by (3) entities within the NIKE Brand geographic operating segments and Converse but managed through our central foreign exchange risk management program.

The primary financial measure used by the Company to evaluate performance of individual operating segments is earnings before interest and taxes (commonly referred to as "EBIT"), which represents Net income before Interest expense (income), net and Income tax expense in the Consolidated Statements of Income. As discussed in Note 17 —

Operating Segments and Related Information in the accompanying Notes to the Consolidated Financial Statements, certain corporate costs are not included in EBIT of our operating segments.

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

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	Fiscal 2015	% Change
North America	\$3,875	\$ 3,763	3 %	\$ 3,645	3 %
Western Europe	1,203	1,434	-16 %	1,275	12 %
Central & Eastern Europe	244	289	-16 %	249	16 %
Greater China	1,507	1,372	10 %	993	38 %
Japan	224	174	29 %	100	74 %
Emerging Markets	816	892	-9 %	818	9 %
Global Brand Divisions	(2,677)	(2,596)	-3 %	(2,267)	-15 %
Total NIKE Brand	5,192	5,328	-3 %	4,813	11 %
Converse	477	487	-2 %	517	-6 %
Corporate	(724)	(1,173)	38 %	(1,097)	-7 %
TOTAL NIKE, INC. EARNINGS BEFORE INTEREST AND TAXES	4,945	4,642	7 %	4,233	10 %
Interest expense (income), net	59	19	—	28	—
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	\$4,886	\$ 4,623	6 %	\$ 4,205	10 %

North America

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change Excluding Currency Changes	Fiscal 2015	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	\$9,684	\$9,299	4 %	4 %	\$8,506	9 %	10 %
Apparel	4,886	4,746	3 %	3 %	4,410	8 %	8 %
Equipment	646	719	-10 %	-10 %	824	-13 %	-13 %
TOTAL REVENUES	\$15,216	\$14,764	3 %	3 %	\$13,740	7 %	8 %
Revenues by:							
Sales to Wholesale Customers	\$10,756	\$10,674	1 %	1 %	\$10,243	4 %	5 %
Sales Direct to Consumer	4,460	4,090	9 %	9 %	3,497	17 %	17 %
TOTAL REVENUES	\$15,216	\$14,764	3 %	3 %	\$13,740	7 %	8 %
EARNINGS BEFORE INTEREST AND TAXES	\$3,875	\$3,763	3 %		\$3,645	3 %	

Fiscal 2017 Compared to Fiscal 2016

North America revenues increased 3%, driven by growth in our Sportswear and Jordan Brand categories, partially offset by declines in other categories, including NIKE Basketball. DTC revenues increased 9% for fiscal 2017 due to digital commerce sales growth, the addition of new stores and comparable store sales growth of 3%. The broader retail marketplace in North America is being impacted by several significant trends, including shifting consumer traffic patterns across digital and physical channels, retail consolidation and a promotional environment.

Footwear revenue growth for fiscal 2017 was attributable to higher revenues in our Sportswear and Jordan Brand categories, partially offset by declines in other categories. Unit sales of footwear increased 4%, while ASP per pair was flat as higher off-price ASP was offset by unfavorable off-price mix.

The increase in apparel revenues for fiscal 2017 was due to growth concentrated in Sportswear, partially offset by declines in several other categories. Unit sales of apparel grew 2% and higher ASP per unit contributed approximately 1 percentage point of apparel revenue growth, primarily due to higher full-price ASP.

EBIT grew 3% for fiscal 2017 as revenue growth and gross margin expansion were partially offset by higher selling and administrative expense as a percent of revenues. Gross margin increased 10 basis points as higher full-price ASP and favorable off-price margin more than offset higher product costs and increased off-price mix as a result of clearing

excess inventories through off-price channels, including through our DTC business. Selling and administrative expense grew due to higher operating overhead as continued investments in our growing DTC business were partially offset by lower bad debt expense. Demand creation was flat as higher sports marketing and retail brand presentation costs offset lower marketing and advertising costs.

Fiscal 2016 Compared to Fiscal 2015

On a constant-currency basis, North America revenues increased 8% primarily due to growth in our Sportswear, Jordan Brand and Running categories. DTC revenues grew 17% for fiscal 2016, fueled by strong digital commerce sales growth, the addition of new stores and comparable store sales growth of 6%.

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Currency-neutral footwear revenue growth was attributable to higher revenues in most key categories, led by the Jordan Brand, Sportswear, Running and Women's Training, partially offset by a slight decline in NIKE Basketball. Fiscal 2016 unit sales of footwear increased 8%. Higher ASP per pair contributed approximately 2 percentage points of footwear revenue growth, driven by higher full-price ASP and the favorable impact of an increase in the proportion of revenues from our higher-priced DTC business, partially offset by higher off-price mix.

Apparel revenue growth for fiscal 2016 was primarily driven by our Sportswear and Men's Training categories. For fiscal 2016, unit sales of apparel grew 7%. Higher ASP per unit contributed approximately 1 percentage point of apparel revenue growth, primarily attributable to higher full-price ASP.

EBIT increased 3% for fiscal 2016 as higher revenues were largely offset by lower gross margin and higher selling and administrative expense as a percent of revenues. Gross margin declined 80 basis points as higher off-price mix, higher warehousing and inventory obsolescence costs, as well as higher product input costs more than offset higher full-price ASP. Selling and administrative expense increased as a percent of revenues as higher operating overhead to support our growing DTC operations and bad debt expense related to customer bankruptcies was partially offset by lower variable compensation. Demand creation also grew at a faster rate than revenues due to higher spending for sports marketing, DTC marketing and key brand events and initiatives, partially offset by lower advertising expense.

Western Europe

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change		Fiscal 2015	% Change	% Change			
				Excluding Currency Changes				Excluding Currency Changes			
Revenues by:											
Footwear	\$4,068	\$3,985	2	%	7	%	\$3,876	3	%	14	%
Apparel	1,868	1,628	15	%	21	%	1,552	5	%	16	%
Equipment	275	271	1	%	7	%	277	-2	%	8	%
TOTAL REVENUES	\$6,211	\$5,884	6	%	11	%	\$5,705	3	%	14	%
Revenues by:											
Sales to Wholesale Customers	\$4,443	\$4,429	0	%	5	%	\$4,451	0	%	10	%
Sales Direct to Consumer	1,768	1,455	22	%	28	%	1,254	16	%	28	%
TOTAL REVENUES	\$6,211	\$5,884	6	%	11	%	\$5,705	3	%	14	%
EARNINGS BEFORE INTEREST AND TAXES	\$1,203	\$1,434	-16	%			\$1,275	12	%		

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, Western Europe revenues for fiscal 2017 increased 11%. Revenue growth was broad-based across all territories, led by Western Europe's largest territory, the UK & Ireland, which grew 11%. On a category basis, revenues increased for nearly all key categories, most notably Sportswear, Running and the Jordan Brand. DTC revenues grew 28% for fiscal 2017 due to strong digital commerce sales growth, comparable store sales growth of 16% and the addition of new stores.

The constant-currency increase in footwear revenues was led by Sportswear, Running and the Jordan Brand, partially offset by declines concentrated in Football (Soccer). For fiscal 2017, unit sales of footwear increased 5% and higher ASP per pair contributed approximately 2 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to the favorable impact of growth in our DTC business.

Currency-neutral apparel revenue growth was due to higher revenues for nearly every key category, most notably Sportswear and, to a lesser extent, Football (Soccer). Unit sales of apparel for fiscal 2017 increased 16%, while higher ASP per unit contributed approximately 5 percentage points of apparel revenue growth. The increase in ASP per unit was primarily attributable to the favorable impact of growth in our DTC business and higher full-price ASP.

Reported EBIT decreased 16% for fiscal 2017, in part reflecting the negative impact of weakening foreign currency exchange rates. Higher revenues and selling and administrative expense leverage were more than offset by significant gross margin contraction. Gross margin declined 550 basis points primarily driven by the effects of significant unfavorable standard foreign currency exchange rates. Selling and administrative expense increased due to higher demand creation expense, as increased sports marketing and advertising expenses more than offset lower marketing

costs. Operating overhead also increased due to continued investments in our growing DTC business, partially offset by administrative cost efficiencies and lower variable compensation costs.

Fiscal 2016 Compared to Fiscal 2015

On a constant-currency basis, Western Europe revenues for fiscal 2016 increased 14% with double-digit growth in every territory. Growth was led by our largest territories, the UK & Ireland and AGS (Austria, Germany and Switzerland), which grew 12% and 16%, respectively. On a category basis, revenues grew for every key category, most notably Sportswear, Football (Soccer) and the Jordan Brand. DTC revenues grew 28% for fiscal 2016, due to strong digital commerce sales growth, the addition of new stores and comparable store sales growth of 13%.

Currency-neutral footwear revenue growth was fueled by increases in most key categories, led by Sportswear and the Jordan Brand. For fiscal 2016, unit sales of footwear increased 10%. Higher ASP per pair contributed approximately 4 percentage points of footwear revenue growth, driven by higher full-price ASP and the favorable impact of an increase in the proportion of revenues from our higher-priced DTC business, partially offset by higher off-price mix.

The constant-currency apparel revenue growth was attributable to increases in every key category, most notably Sportswear, with Football (Soccer) also providing strong growth. Unit sales of apparel for fiscal 2016 increased 11%. Higher ASP per unit contributed approximately 5 percentage points of apparel revenue growth, primarily driven by the favorable impact of an increase in the proportion of revenues from our higher-priced DTC business and higher full-price ASP.

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On a reported basis, EBIT grew 12% for fiscal 2016, despite the negative translation impact from changes in foreign currency exchange rates, most notably the Euro. EBIT grew at a higher rate than revenue as selling and administrative expense leverage and the favorable settlement of a legal judgment related to a bankruptcy case reflected in Other (income) expense, net, were only partially offset by lower gross margin. Gross margin declined 10 basis points as unfavorable standard foreign currency exchange rates and higher off-price mix were mostly offset by higher full-price ASP, shifts in mix to lower-cost products and growth in our higher-margin DTC business. Selling and administrative expense was lower as a percent of revenues despite higher operating overhead, primarily to support DTC expansion. Demand creation increased slightly as higher spending for DTC and other demand creation costs more than offset lower sports marketing costs.

Central & Eastern Europe

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change		Fiscal 2015	% Change	% Change	
				Excluding Currency Changes				Excluding Currency Changes	
Revenues by:									
Footwear	\$927	\$882	5 %	9 %		\$827	7 %	23 %	
Apparel	471	463	2 %	4 %		499	-7 %	9 %	
Equipment	89	86	3 %	6 %		95	-9 %	7 %	
TOTAL REVENUES	\$1,487	\$1,431	4 %	7 %		\$1,421	1 %	17 %	
Revenues by:									
Sales to Wholesale Customers	\$1,237	\$1,215	2 %	5 %		\$1,241	-2 %	13 %	
Sales Direct to Consumer	250	216	16 %	19 %		180	20 %	46 %	
TOTAL REVENUES	\$1,487	\$1,431	4 %	7 %		\$1,421	1 %	17 %	
EARNINGS BEFORE INTEREST AND TAXES	\$244	\$289	-16 %			\$249	16 %		

Fiscal 2017 Compared to Fiscal 2016

On a constant-currency basis, Central & Eastern Europe revenues increased 7%, with double-digit growth in nearly every territory. Revenue growth was led by two of Central & Eastern Europe's largest territories, Turkey and Russia, which each increased 14%, while revenues for our distributors business decreased 9%. On a category basis, revenue growth was fueled by higher revenues, primarily in Sportswear, which more than offset declines in several other categories. DTC revenues increased 19%, driven by comparable store sales growth of 9%, the addition of new stores and digital commerce sales growth.

The constant-currency footwear revenue growth for fiscal 2017 was primarily attributable to higher Sportswear revenues, partially offset by declines in most other categories. Unit sales of footwear increased 7%. Higher ASP per pair contributed approximately 2 percentage points of footwear revenue growth, driven by higher off-price and DTC ASPs.

Currency-neutral apparel revenue growth for fiscal 2017 was primarily due to growth in Sportswear. Unit sales of apparel increased 2%, while higher ASP per unit contributed approximately 2 percentage points of apparel revenue growth. ASP per unit increased as lower full-price ASP resulting from higher discounts was more than offset by the favorable impact of growth in our DTC business.

Reported EBIT decreased 16% for fiscal 2017 as revenue growth and selling and administrative expense leverage were more than offset by lower gross margin. Gross margin declined 490 basis points primarily due to significant unfavorable standard foreign currency exchange rates. Selling and administrative expense decreased as a percent of revenues despite higher demand creation expense driven by higher advertising and sports marketing costs, partially offset by lower retail brand presentation costs. Operating overhead expense decreased primarily due to lower administrative and variable compensation costs, partially offset by continued investments in our DTC business.

Fiscal 2016 Compared to Fiscal 2015

On a currency-neutral basis, fiscal 2016 revenues for Central & Eastern Europe increased 17%, with double-digit growth in nearly every territory. Revenue growth was led by two of our largest territories, Turkey and Russia, which increased 26% and 18%, respectively, while our distributors business also grew 16%. Revenues grew in nearly every

key category, driven by Sportswear, Running and Football (Soccer). DTC revenues increased 46%, fueled by comparable store sales growth of 27% and the addition of new stores.

Constant-currency footwear revenue growth in fiscal 2016 was driven by growth in nearly every key category, led by Sportswear and Running. Fiscal 2016 unit sales of footwear increased 7%. Higher ASP per pair contributed approximately 16 percentage points of footwear revenue growth, primarily driven by higher full-price ASP, largely reflecting inflationary conditions in certain territories.

The currency-neutral growth in apparel revenue in fiscal 2016 was attributable to growth in nearly all key categories, most notably Football (Soccer) and Running. Unit sales of apparel decreased 2% for fiscal 2016. Higher ASP per unit contributed approximately 11 percentage points of apparel revenue growth, primarily driven by higher full-price ASP, largely reflecting inflationary conditions in certain territories.

On a reported basis, EBIT increased 16% for fiscal 2016, despite the negative impact of changes in foreign currency exchange rates, primarily the Russian Ruble and Turkish Lira. EBIT grew faster than reported revenues due to significant gross margin expansion and selling and administrative expense leverage. Gross margin increased 140 basis points as significantly higher full-price ASP, warehousing efficiencies and the favorable impact of a higher proportion of revenues from our higher-margin DTC business more than offset unfavorable standard foreign currency exchange rates and shifts in mix to higher-cost products. Selling and administrative expense decreased as a percent of revenues despite higher operating overhead to support DTC expansion and higher demand creation expense due to increased sports marketing costs and spending to support brand events.

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Greater China

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change Excluding		Fiscal 2015	% Change	% Change Excluding	
				Currency Changes				Currency Changes	
Revenues by:									
Footwear	\$2,920	\$2,599	12 %	18 %		\$2,016	29 %	33 %	
Apparel	1,188	1,055	13 %	18 %		925	14 %	17 %	
Equipment	129	131	-2 %	3 %		126	4 %	7 %	
TOTAL REVENUES	\$4,237	\$3,785	12 %	17 %		\$3,067	23 %	27 %	
Revenues by:									
Sales to Wholesale Customers	\$2,774	\$2,623	6 %	11 %		\$2,234	17 %	21 %	
Sales Direct to Consumer	1,463	1,162	26 %	32 %		833	39 %	44 %	
TOTAL REVENUES	\$4,237	\$3,785	12 %	17 %		\$3,067	23 %	27 %	
EARNINGS BEFORE INTEREST AND TAXES	\$1,507	\$1,372	10 %			\$993	38 %		

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, Greater China revenues for fiscal 2017 increased 17%, driven by higher revenues in nearly all key categories, led by Sportswear, Running and the Jordan Brand. DTC revenues increased 32%, driven by strong digital commerce sales growth, the addition of new stores and comparable store sales growth of 9%.

The constant-currency increase in footwear revenue for fiscal 2017 was driven by growth in nearly all key categories, most notably Running, Sportswear and the Jordan Brand. Unit sales of footwear increased 21%, while lower ASP per pair reduced footwear revenue growth by approximately 3 percentage points as higher off-price ASP was more than offset by lower DTC ASP and unfavorable off-price mix.

The currency-neutral apparel revenue growth for fiscal 2017 was due to higher revenues in nearly all key categories, led by Sportswear and Running. Unit sales of apparel increased 15% and higher ASP per unit increased apparel revenue growth by approximately 3 percentage points. The increase in ASP per unit was attributable to higher full-price ASP, partially offset by lower ASP in our DTC business and unfavorable off-price mix.

Despite the negative impact of translation, reported EBIT increased 10% for fiscal 2017 driven by higher revenues and selling and administrative expense leverage, partially offset by lower gross margin. Gross margin contracted 240 basis points primarily due to unfavorable standard foreign currency exchange rates and higher product costs. Selling and administrative expense increased due to higher operating overhead to support DTC growth. Demand creation expense also increased as higher marketing costs more than offset lower retail brand presentation and sports marketing expenses.

Fiscal 2016 Compared to Fiscal 2015

On a currency-neutral basis, Greater China revenues for fiscal 2016 increased 27%, driven by higher revenues in nearly every key category, led by Sportswear, Running, NIKE Basketball and the Jordan Brand. DTC revenues increased 44%, driven by significant digital commerce sales growth, the addition of new stores and comparable store sales growth of 19%.

The constant-currency increase in footwear revenue for fiscal 2016 was driven by growth in nearly every key category, most notably Sportswear, Running, NIKE Basketball and the Jordan Brand. For fiscal 2016, unit sales of footwear increased 27%. Higher ASP per pair contributed approximately 6 percentage points of footwear revenue growth, driven by higher full-price ASP and the favorable impact of an increase in the proportion of revenues from our higher-priced DTC business.

Constant-currency apparel revenue growth for fiscal 2016 was attributable to higher revenues in nearly every key category, led by Running and Sportswear. Unit sales of apparel increased 17% for fiscal 2016 while ASP per unit was flat.

On a reported basis, EBIT increased 38% for fiscal 2016 due to strong revenue growth, gross margin expansion and selling and administrative expense leverage. Gross margin increased 80 basis points due to higher full-price ASP and an increase in the proportion of revenues from our higher-margin DTC business, partially offset by shifts in mix to

higher-cost products and unfavorable standard foreign currency exchange rates. Selling and administrative expense decreased as a percent of revenues despite higher operating overhead and demand creation expense. Operating overhead increased largely due to support for our growing DTC operations, while demand creation was also higher, primarily due to retail brand presentation costs to re-profile category and consumer-focused retail stores as well as spending for key brand events.

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Japan

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change Excluding		Fiscal 2015	% Change	% Change Excluding	
				Currency Changes				Currency Changes	
Revenues by:									
Footwear	\$666	\$570	17 %	7 %		\$452	26 %	34 %	
Apparel	275	228	21 %	10 %		230	-1 %	5 %	
Equipment	73	71	3 %	-6 %		73	-3 %	3 %	
TOTAL REVENUES	\$1,014	\$869	17 %	7 %		\$755	15 %	22 %	
Revenues by:									
Sales to Wholesale Customers	\$668	\$587	14 %	4 %		\$536	10 %	16 %	
Sales Direct to Consumer	346	282	23 %	12 %		219	29 %	37 %	
TOTAL REVENUES	\$1,014	\$869	17 %	7 %		\$755	15 %	22 %	
EARNINGS BEFORE INTEREST AND TAXES	\$224	\$174	29 %			\$100	74 %		

Fiscal 2017 Compared to Fiscal 2016

On a constant-currency basis, revenues for Japan increased 7% for fiscal 2017. Most key categories grew, led by Sportswear and Running, partially offset by declines in Golf. DTC revenue growth of 12% was driven by comparable store sales growth of 10%, digital commerce sales growth and the addition of new stores.

On a reported basis, EBIT increased 29%, in part reflecting the impact of the stronger Yen. Reported revenue growth and selling and administrative expense leverage were only partially offset by lower gross margin. Gross margin declined 150 basis points as lower product costs were more than offset by the impact of unfavorable standard foreign currency exchange rates, unfavorable off-price margin and lower DTC margin. Selling and administrative expense grew due to higher operating overhead and demand creation expense. Operating overhead increased as lower wage-related, administrative and variable compensation costs were more than offset by increased investments in our growing DTC business and the impact of changes in foreign currency exchange rates. Demand creation expense increased as the negative impact of changes in foreign currency exchange rates more than offset lower sports marketing, advertising and marketing costs.

Fiscal 2016 Compared to Fiscal 2015

On a currency-neutral basis, revenues for Japan increased 22% for fiscal 2016, driven by growth in most key categories, led by Sportswear, Running and the Jordan Brand. DTC revenues were 37% higher, due to strong digital commerce sales growth, comparable store sales growth of 17% and the addition of new stores.

Reported EBIT increased 74%, despite the weaker Yen. EBIT growth was driven by higher reported revenues, gross margin expansion and significant selling and administrative expense leverage. Gross margin expanded 270 basis points due to higher full-price ASP, in part due to lower discounts, as well as growth in our higher-margin DTC business, lower product input costs and warehousing efficiencies, which more than offset unfavorable standard foreign currency exchange rates. Selling and administrative expense decreased as a percent of revenues despite investments in operating overhead to support our growing DTC business. Demand creation spending for DTC marketing and brand events was largely offset by lower spending for retail brand presentation and advertising costs.

Emerging Markets

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change Excluding		Fiscal 2015	% Change	% Change Excluding	
				Currency Changes				Currency Changes	
Revenues by:									
Footwear	\$2,816	\$2,536	11 %	17 %		\$2,641	-4 %	14 %	
Apparel	966	947	2 %	8 %		1,021	-7 %	11 %	
Equipment	213	218	-2 %	2 %		236	-8 %	11 %	
TOTAL REVENUES	\$3,995	\$3,701	8 %	14 %		\$3,898	-5 %	13 %	

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Revenues by:

Sales to Wholesale Customers	\$3,200	\$3,049	5	%	11	%	\$3,247	-6	%	11	%
Sales Direct to Consumer	795	652	22	%	26	%	651	0	%	23	%
TOTAL REVENUES	\$3,995	\$3,701	8	%	14	%	\$3,898	-5	%	13	%
EARNINGS BEFORE INTEREST AND TAXES	\$816	\$892	-9	%			\$818	9	%		

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Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, Emerging Markets revenues increased 14%, driven by higher revenues in every territory. Revenues for three of Emerging Market's largest territories, SOCO (which includes Argentina, Uruguay and Chile), Korea and Mexico, grew 34%, 14% and 18%, respectively. Additionally, revenues increased in most key categories, led by Sportswear and Running. DTC revenues increased 26%, fueled by the addition of new stores, comparable store sales growth of 11% and higher digital commerce sales.

The increase in constant-currency footwear revenue for fiscal 2017 was attributable to growth in most key categories, most notably Sportswear and Running. Unit sales of footwear increased 7%. Higher ASP per pair contributed approximately 10 percentage points of footwear revenue growth, primarily attributable to higher full-price ASP, in part reflecting inflationary conditions in certain territories.

Currency-neutral growth in apparel revenue was fueled by increases in most key categories, led by Sportswear and Running. For fiscal 2017, unit sales of apparel were flat while higher ASP per unit contributed approximately 8 percentage points of apparel revenue growth. The increase in ASP per unit was primarily driven by higher full-price ASP, in part reflecting inflationary conditions in certain territories.

Reported EBIT decreased 9%, in part reflecting the negative impact of changes in foreign currency exchange rates, primarily the Argentine Peso and Mexican Peso. Reported revenue growth and selling and administrative expense leverage were more than offset by lower gross margin. Gross margin decreased 430 basis points as higher full-price ASP was more than offset by unfavorable standard foreign currency exchange rates and higher product costs. Selling and administrative expense increased due to higher operating overhead costs primarily resulting from ongoing investments in our growing DTC business, partially offset by administrative cost efficiencies. Demand creation expense also increased as lower advertising costs were more than offset by increased marketing support for the Rio Olympics in the first quarter, as well as higher sports marketing costs.

Fiscal 2016 Compared to Fiscal 2015

On a currency-neutral basis, fiscal 2016 revenues for Emerging Markets increased 13%. Growth was attributable to higher revenues in 7 of 9 territories, led by one of our largest territories, SOCO (which includes Argentina, Uruguay and Chile), which grew 32%, and by Mexico and Pacific (which includes Australia and New Zealand), which grew 31% and 27%, respectively. Revenues declined 5% in Brazil, primarily reflecting on-going macroeconomic challenges. On a category basis, revenues grew in nearly every key category, led by Sportswear and Running. DTC revenues increased 23%, driven by the addition of new stores, comparable store sales growth of 7% and digital commerce sales growth.

The constant-currency growth in footwear revenue for fiscal 2016 was driven by higher revenues in nearly every key category, most notably Sportswear and Running. For fiscal 2016, unit sales of footwear increased 1%, while higher ASP per pair contributed approximately 13 percentage points of footwear revenue growth. Higher ASP was attributable to higher full-price ASP, primarily reflecting inflationary conditions in certain territories, and to a lesser extent, the favorable impact of an increase in the proportion of revenues from our higher-priced DTC business.

The constant-currency growth in apparel revenue was due to increases in most key categories, led by Sportswear, Running and Women's Training. Fiscal 2016 unit sales of apparel decreased 2%, while higher ASP per unit contributed approximately 13 percentage points of apparel revenue growth. Higher ASP was due to higher full-price ASP, primarily reflecting inflationary conditions in certain territories, and to a lesser extent, the favorable impact of an increase in the proportion of revenues from our higher-priced DTC business.

On a reported basis, EBIT increased 9%, despite the negative impact of foreign currency exchange rates, primarily the Argentine Peso, Mexican Peso and Korean Won, as gross margin expansion more than offset lower reported revenues and higher selling and administrative expense as a percent of revenues. Gross margin expanded 350 basis points due to higher full-price ASP, lower warehousing and obsolescence costs, and growth in our higher-margin DTC business, partially offset by shifts in mix to higher-cost products and unfavorable standard foreign currency exchange rates. Selling and administrative expense declined on a reported basis, but was higher as a percent of revenues as higher operating overhead due to additional investments in our DTC business and higher wage-related and variable compensation expenses were more than offset by changes in foreign currency exchange rates. Demand creation expense also increased driven by sports marketing and digital brand marketing costs, offset by the impact of foreign

currency exchange rates.

Global Brand Divisions

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change		% Change	
				Excluding Currency Changes	Fiscal 2015	% Change	Excluding Currency Changes
Revenues	\$73	\$73	0 %	2 %	\$115	-37 %	-30 %
(Loss) Before Interest and Taxes	\$(2,677)	\$(2,596)	3 %		\$(2,267)	15 %	

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

Fiscal 2017 Compared to Fiscal 2016

Global Brand Divisions' loss before interest and taxes increased 3% for fiscal 2017 primarily due to higher demand creation expense, which was only partially offset by a decline in operating overhead expense. The increase in demand creation expense was due to higher marketing and advertising expenses for key brand and sporting events, including the Rio Olympics and the European Football Championship in the first quarter. Operating overhead expense decreased as higher wage-related expenses were more than offset by administrative cost efficiencies and lower variable compensation.

Fiscal 2016 Compared to Fiscal 2015

Global Brand Divisions' loss before interest and taxes increased 15% for fiscal 2016 due to higher operating overhead and demand creation expense, and to a lesser extent, lower revenues, largely resulting from the expiration of certain football club endorsement agreements. Operating overhead increased due to higher wage-related expenses and consumer-focused digital capabilities, partially offset by lower variable compensation expenses. Demand creation expense increased due to higher advertising and digital brand marketing expenses.

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Converse

(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	% Change		% Change	
				Excluding Currency Changes	Fiscal 2015	% Change	Excluding Currency Changes
Revenues	\$2,042	\$1,955	4 %	6 %	\$1,982	-1 %	2 %
Earnings Before Interest and Taxes	\$477	\$487	-2 %		\$517	-6 %	

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

Fiscal 2017 Compared to Fiscal 2016

On a currency-neutral basis, revenues for Converse increased 6% for fiscal 2017. Comparable direct distribution markets (i.e. markets served under a direct distribution model for comparable periods in the current and prior fiscal years) grew 4%, contributing approximately 4 percentage points of total Converse revenue growth for fiscal 2017. Comparable direct distribution market unit sales increased 2%, while higher ASP per unit contributed approximately 2 percentage points of direct distribution markets revenue growth. On a territory basis, the increase in comparable direct distribution market revenues was primarily attributable to growth in the United States, partially offset by lower revenues in Europe. Conversion of markets from licensed to direct distribution increased total Converse revenues by approximately 2 percentage points for fiscal 2017, primarily driven by the market transition in Italy. Revenues from comparable licensed markets decreased 5%, having an insignificant impact to total Converse revenue. The decrease in comparable licensed markets revenues is primarily due to lower revenues in Latin America.

Reported EBIT declined 2% for fiscal 2017 as revenue growth and lower selling and administrative expense were more than offset by gross margin contraction. Gross margin decreased 300 basis points as higher full-price ASP was more than offset by unfavorable standard foreign currency exchange rates and higher product costs primarily due to a shift in mix to lower margin products. Gross margin also contracted due to the unfavorable impact of lower licensing revenues, primarily due to market transitions. Selling and administrative expense decreased due to lower demand creation expense, primarily as a result of lower retail brand presentation costs, partially offset by higher advertising expense. Operating overhead increased as higher wage-related expenses were only partially offset by lower administrative costs.

Fiscal 2016 Compared to Fiscal 2015

Excluding changes in foreign currency exchange rates, Converse revenues increased 2% for fiscal 2016. Comparable direct distribution markets grew 4%, contributing approximately 3 percentage points of total Converse revenue growth for fiscal 2016. Comparable direct distribution market unit sales decreased 2%, while higher ASP per unit contributed approximately 6 percentage points of direct distribution market revenue growth. On a territory basis, growth in the United States and Asia Pacific was partially offset by declines in Europe, primarily the United Kingdom. Conversion of markets from licensed to direct distribution markets had an insignificant impact on total Converse revenue growth for fiscal 2016. Revenues from comparable licensed markets decreased 15% for fiscal 2016, reducing total Converse revenue growth by approximately 1 percentage point. The decrease in comparable licensed markets revenues was primarily due to poor macroeconomic conditions in Latin America.

Reported EBIT for Converse decreased 6% for fiscal 2016 as a decrease in reported revenues and lower gross margin more than offset selling and administrative expense leverage. Gross margin declined 220 basis points as unfavorable standard foreign currency exchange rates, shifts in mix to higher-cost products and higher off-price mix more than offset higher full-price ASP. Selling and administrative expense declined faster than reported revenues primarily due to lower demand creation, which more than offset slightly higher operating overhead due to higher wage-related expenses.

Corporate

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(Dollars in millions)	Fiscal 2017	Fiscal 2016	% Change	Fiscal 2015	% Change
Revenues	\$75	\$(86)) —	\$(82)) —
(Loss) Before Interest and Taxes	\$(724)	\$(1,173)	-38 %	\$(1,097)	7 %

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

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

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

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Fiscal 2017 Compared to Fiscal 2016

For fiscal 2017, Corporate's loss before interest and taxes decreased \$449 million primarily due to the following: a beneficial change of \$280 million related to the difference between actual foreign currency exchange rates and standard foreign currency exchange rates assigned to the NIKE Brand geographic operating segments and Converse, net of hedge gains and losses; these results are reported as a component of consolidated gross margin; a beneficial change of \$115 million, primarily driven by lower variable compensation and administrative costs in operating overhead expense; and an increase in net foreign currency gains of \$54 million related to the re-measurement of monetary assets and liabilities denominated in non-functional currencies and the impact of certain foreign currency derivative instruments, reported as a component of consolidated Other (income) expense, net.

Fiscal 2016 Compared to Fiscal 2015

For fiscal 2016, Corporate's loss before interest and taxes increased \$76 million primarily due to the following: an increase of \$179 million, primarily driven by higher operating overhead expense to support corporate growth initiatives; a beneficial change of \$76 million from net foreign currency losses to net foreign currency gains related to the difference between actual foreign currency exchange rates and standard foreign currency exchange rates assigned to the NIKE Brand geographic operating segments and Converse, net of hedge gains; these gains are reported as a component of consolidated gross margin; and a beneficial change of \$27 million in net foreign currency gains related to the re-measurement of monetary assets and liabilities denominated in non-functional currencies and the impact of certain foreign currency derivative instruments, reported as a component of consolidated Other (income) expense, net.

Foreign Currency Exposures and Hedging Practices

Overview

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

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

Transactional Exposures

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

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

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

Other NIKE entities purchase product directly from third-party factories in U.S. Dollars. These purchases generate a foreign currency exposure for those NIKE entities with a functional currency other than the U.S. Dollar. In both purchasing scenarios, a weaker U.S. Dollar decreases the inventory cost incurred by NIKE whereas a stronger U.S. Dollar increases its cost.

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

For the currency within the factory currency exposure indices that is the local or functional currency of the factory, the currency rate fluctuation affecting the product cost is recorded within Inventories and is recognized in Cost of sales when the related product is sold to a third-party. All currencies within the indices, excluding the U.S. Dollar and the local or functional currency of the factory, are recognized as embedded derivative contracts and are recorded at fair value through Other (income) expense, net. Refer to Note 16 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional detail.

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

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

Other Costs — Non-functional currency denominated costs, such as endorsement contracts, also generate foreign currency risk, though to a lesser extent. In certain cases, the Company has also entered into other contractual agreements which have payments that are indexed to foreign currencies and create embedded derivative contracts that are recorded at fair value through Other (income) expense, net. Refer to Note 16 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional detail.

Non-Functional Currency Denominated Monetary Assets and Liabilities — Our global subsidiaries have various assets and liabilities, primarily receivables and payables, including intercompany receivables and payables, denominated in currencies other than their functional currencies. These balance sheet items are subject to re-measurement which may create fluctuations in Other (income) expense, net within our consolidated results of operations.

Managing Transactional Exposures

Transactional exposures are managed on a portfolio basis within our foreign currency risk management program. We manage these exposures by taking advantage of natural offsets and currency correlations that exist within the portfolio and may also elect to use currency forward and option contracts to hedge the remaining effect of exchange rate fluctuations on probable forecasted future cash flows, including certain product cost exposures, non-functional currency denominated external sales and other costs described above. Generally, these are accounted for as cash flow hedges in accordance with U.S. GAAP, except for hedges of the embedded derivatives components of the product cost exposures and other contractual agreements as discussed above.

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

Refer to Note 6 — Fair Value Measurements and Note 16 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional description of how the above financial instruments are valued and recorded, as well as the fair value of outstanding derivatives at each reported period end.

Translational Exposures

Many of our foreign subsidiaries operate in functional currencies other than the U.S. Dollar. Fluctuations in currency exchange rates create volatility in our reported results as we are required to translate the balance sheets, operational

results and cash flows of these subsidiaries into U.S. Dollars for consolidated reporting. The translation of foreign subsidiaries' non-U.S. Dollar denominated balance sheets into U.S. Dollars for consolidated reporting results in a cumulative translation adjustment to Accumulated other comprehensive income within the Consolidated Statements of Shareholders' Equity. In the translation of our Consolidated Statements of Income, a weaker U.S. Dollar in relation to foreign functional currencies benefits our consolidated earnings whereas a stronger U.S. Dollar reduces our consolidated earnings. The impact of foreign exchange rate fluctuations on the translation of our consolidated Revenues was a detriment of approximately \$542 million and \$1,985 million for the years ended May 31, 2017 and 2016, respectively. The impact of foreign exchange rate fluctuations on the translation of our Income before income taxes was a detriment of approximately \$115 million and \$449 million for the years ended May 31, 2017 and 2016, respectively.

Managing Translational Exposures

To minimize the impact of translating foreign currency denominated revenues and expenses into U.S. Dollars for consolidated reporting, certain foreign subsidiaries use excess cash to purchase U.S. Dollar denominated available-for-sale investments. The variable future cash flows associated with the purchase and subsequent sale of these U.S. Dollar denominated securities at non-U.S. Dollar functional currency subsidiaries creates a foreign currency exposure that qualifies for hedge accounting under the accounting standards for derivatives and hedging. We utilize forward contracts and/or options to mitigate the variability of the forecasted future purchases and sales of these U.S. Dollar investments. The combination of the purchase and sale of the U.S. Dollar investment and the hedging instrument has the effect of partially offsetting the year-over-year foreign currency translation impact on net earnings in the period the investments are sold. Hedges of available-for-sale investments are accounted for as cash flow hedges.

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Refer to Note 6 — Fair Value Measurements and Note 16 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional description of how the above financial instruments are valued and recorded as well as the fair value of outstanding derivatives at each reported period end.

We estimate the combination of translation of foreign currency-denominated profits from our international businesses and the year-over-year change in foreign currency related gains and losses included in Other (income) expense, net had an unfavorable impact of approximately \$59 million and \$423 million on our Income before income taxes for the years ended May 31, 2017 and 2016, respectively.

Net Investments in Foreign Subsidiaries

We are also exposed to the impact of foreign exchange fluctuations on our investments in wholly-owned foreign subsidiaries denominated in a currency other than the U.S. Dollar, which could adversely impact the U.S. Dollar value of these investments and therefore the value of future repatriated earnings. We have, in the past, hedged and may, in the future, hedge net investment positions in certain foreign subsidiaries to mitigate the effects of foreign exchange fluctuations on these net investments. These hedges are accounted for in accordance with U.S. GAAP. There were no outstanding net investment hedges as of May 31, 2017 and 2016. There were no cash flows from net investment hedge settlements for the years ended May 31, 2017 and 2016.

Liquidity and Capital Resources

Cash Flow Activity

Cash provided by operations was \$3,640 million for fiscal 2017 compared to \$3,096 million for fiscal 2016. Net income, adjusted for non-cash items, generated \$4,781 million of operating cash flow in fiscal 2017 compared to \$4,676 million for fiscal 2016. Our fiscal 2017 change in working capital was a cash outflow of \$1,141 million compared to an outflow of \$1,580 million for fiscal 2016. The change in working capital was primarily due to the net change in cash collateral with derivative counterparties as a result of hedging activities. For fiscal 2017, cash collateral received from counterparties, which is recorded in Accrued liabilities on the Consolidated Balance Sheets, decreased \$105 million compared to a decrease of \$863 million during fiscal 2016. Refer to the Credit Risk section of Note 16 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional detail. This decrease in cash collateral was partially offset by a \$486 million increase in Accounts Receivable, net driven by higher revenues.

Cash used by investing activities was \$1,008 million for fiscal 2017 compared to \$1,034 million for fiscal 2016, driven primarily by the net change in short-term investments and reverse repurchase agreements, as well as additions of property, plant and equipment. During fiscal 2017, the net change in investments (including sales, maturities and purchases) resulted in a cash inflow of \$118 million compared to an outflow of \$57 million in fiscal 2016. This change was partially offset by the maturity of reverse repurchase agreements of \$150 million in fiscal 2016 which did not recur in fiscal 2017. Additions of property, plant and equipment were \$1,105 million in fiscal 2017 compared to \$1,143 million in fiscal 2016.

In fiscal 2018, we plan to continue investing in our infrastructure to support future growth, including corporate facilities, new DTC stores, and expanding our digital capabilities. We continue to expect such investments will be approximately 4% of revenues, on average.

Cash used by financing activities was \$1,942 million for fiscal 2017 compared to \$2,671 million for fiscal 2016. The decrease in Cash used by financing activities was primarily driven by increased proceeds from the issuance of debt and commercial paper in fiscal 2017, partially offset by higher dividends and lower excess tax benefits from share-based payment arrangements.

In fiscal 2017, we purchased 59.7 million shares of NIKE's Class B Common Stock for \$3,249 million (an average price of \$54.43 per share) under the four-year, \$12 billion program approved by the Board of Directors in November 2015. As of May 31, 2017, we had repurchased 79.8 million shares at a cost of approximately \$4,437 million (an average price of \$55.63 per share) under this program. We continue to expect funding of share repurchases will come from operating cash flows, excess cash and/or proceeds from debt. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Capital Resources

On October 21, 2016, we issued \$1.5 billion of senior notes with tranches maturing in 2026 and 2046. The 2026 senior notes were issued in an initial aggregate principal amount of \$1.0 billion at a 2.375% fixed, annual interest rate and will mature on November 1, 2026. The 2046 senior notes were issued in an initial aggregate principal amount of \$500 million at a 3.375% fixed, annual interest rate and will mature on November 1, 2046. Interest on the senior notes is payable semi-annually on May 1 and November 1 of each year. The issuance resulted in proceeds before expenses of \$1,493 million. Refer to Note 8 — Long-Term Debt in the accompanying Notes to the Consolidated Financial Statements for additional detail on Long-term debt.

On August 28, 2015, we entered into a committed credit facility agreement with a syndicate of banks, which provides for up to \$2 billion of borrowings. The facility matures August 28, 2020, with a one year extension option prior to any anniversary of the closing date, provided that in no event shall it extend beyond August 28, 2022. As of and for the periods ended May 31, 2017 and 2016, we had no amounts outstanding under the committed credit facility.

We currently have long-term debt ratings of AA- and A1 from Standard and Poor's Corporation and Moody's Investor Services, respectively. If our long-term debt ratings were to decline, the facility fee and interest rate under our committed credit facility would increase. Conversely, if our long-term debt ratings were to improve, the facility fee and interest rate would decrease. Changes in our long-term debt ratings would not trigger acceleration of maturity of any then-outstanding borrowings or any future borrowings under the committed credit facility. Under this committed revolving credit facility, we have agreed to various covenants. These covenants include limits on our disposal of fixed assets and the amount of debt secured by liens we may incur, as well as limits on the indebtedness we can incur relative to our net worth. In the event we were to have any borrowings outstanding under this facility and failed to meet any covenant, and were unable to obtain a waiver from a majority of the banks in the syndicate, any borrowings would become immediately due and payable. As of May 31, 2017, we were in full compliance with each of these covenants and believe it is unlikely we will fail to meet any of these covenants in the foreseeable future.

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Liquidity is also provided by our \$2 billion commercial paper program. During the year ended May 31, 2017, the maximum amount of commercial paper borrowings outstanding at any point was \$919 million. As of May 31, 2017, there were \$325 million of outstanding borrowings under this program. We may continue to issue commercial paper or other debt securities during fiscal 2018 depending on general corporate needs. We currently have short-term debt ratings of A1+ and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively. As of May 31, 2017, we had cash, cash equivalents and short-term investments totaling \$6.2 billion, of which \$5.8 billion was held by our foreign subsidiaries. Cash equivalents and Short-term investments consist primarily of deposits held at major banks, money market funds, commercial paper, corporate notes, U.S. Treasury obligations, U.S. government sponsored enterprise obligations and other investment grade fixed-income securities. Our fixed-income investments are exposed to both credit and interest rate risk. All of our investments are investment grade to minimize our credit risk. While individual securities have varying durations, as of May 31, 2017, the average duration of our cash equivalents and short-term investments portfolio was 65 days.

To date we have not experienced difficulty accessing the credit markets or incurred higher interest costs. Future volatility in the capital markets, however, may increase costs associated with issuing commercial paper or other debt instruments or affect our ability to access those markets. We believe that existing cash, cash equivalents, short-term investments and cash generated by operations, together with access to external sources of funds as described above, will be sufficient to meet our domestic and foreign capital needs in the foreseeable future.

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

Our significant long-term contractual obligations as of May 31, 2017 and significant endorsement contracts, including related marketing commitments, entered into through the date of this report are as follows:

Description of Commitment (In millions)	Cash Payments Due During the Year Ending May 31,						
	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
Long-Term Debt ⁽²⁾	115	115	115	112	109	5,322	5,888
Endorsement Contracts ⁽³⁾	1,323	1,214	1,054	889	1,032	4,338	9,850
Product Purchase Obligations ⁽⁴⁾	4,521	—	—	—	—	—	4,521
Other Purchase Obligations ⁽⁵⁾	1,000	373	182	106	75	179	1,915
TOTAL	\$7,530	\$2,243	\$1,817	\$1,531	\$1,592	\$ 11,736	\$26,449

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

The cash payments due for long-term debt include estimated interest payments. Estimates of interest payments are (2) based on outstanding principal amounts, applicable fixed interest rates or currently effective interest rates as of May 31, 2017 (if variable), timing of scheduled payments and the term of the debt obligations.

(3) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, public figure, sport team and league endorsers of our

products. Actual payments under some contracts may be higher than the amounts listed as these contracts provide for bonuses to be paid to the endorsers based upon athletic achievements and/or royalties on product sales in future periods. Actual payments under some contracts may also be lower as these contracts include provisions for reduced payments if athletic performance declines in future periods.

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

We generally order product at least four to five months in advance of sale based primarily on futures orders received from external wholesale customers and internal orders from our DTC in-line stores and digital commerce (4) operations. The amounts listed for product purchase obligations represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and that specify all significant terms. In some cases, prices are subject to change throughout the production process. Other purchase obligations primarily include construction, service and marketing commitments, including (5) marketing commitments associated with endorsement contracts, made in the ordinary course of business. The amounts represent the minimum payments required by legally binding contracts and agreements that specify all significant terms, including open purchase orders for non-product purchases.

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

We also have the following outstanding short-term debt obligations as of May 31, 2017. Refer to Note 7 — Short-Term Borrowings and Credit Lines in the accompanying Notes to the Consolidated Financial Statements for further description and interest rates related to the short-term debt obligations listed below.

(In millions)	Outstanding as of May 31, 2017
Notes payable, due at mutually agreed-upon dates within one year of issuance or on demand	\$ 325
Payable to Sojitz America for the purchase of inventories, generally due 60 days after shipment of goods from a foreign port	51

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

New Accounting Pronouncements

Refer to Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for recently adopted and recently issued accounting standards.

Critical Accounting Policies

Our previous discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Note 1 — Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Management has reviewed and discussed these critical accounting policies with the Audit Committee of the Board of Directors. These policies require that we make estimates in the preparation of our financial statements as of a given date. However, since our business cycle is relatively short, actual results related to these estimates are generally known within the six-month period following the financial statement date. Thus, these policies generally affect only the timing of reported amounts across two to three fiscal quarters.

Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Revenue Recognition

We record wholesale revenues when title passes and the risks and rewards of ownership have passed to the customer, based on the terms of sale. Title passes generally upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale and digital commerce revenues are recorded upon delivery to the customer.

In some instances, we ship product directly from our supplier to the customer and recognize revenue when the product is delivered to and accepted by the customer. Our revenues may fluctuate in cases when our customers delay accepting shipment of product for periods of up to several weeks.

In certain countries outside of the United States, precise information regarding the date of receipt by the customer is not readily available. In these cases, we estimate the date of receipt by the customer based upon historical delivery times by geographic location. On the basis of our tests of actual transactions, we have no indication that these

estimates have been materially inaccurate historically.

As part of our revenue recognition policy, we record estimated sales returns, discounts and miscellaneous claims from customers as reductions to revenues at the time revenues are recorded. Our post invoice sales discounts consist of contractual programs with certain customers or discretionary discounts that are expected to be granted to certain customers at a later date. We base our estimates on (1) historical rates of product returns, discounts and claims, (2) specific identification of outstanding claims and outstanding returns not yet received from customers and (3) estimated returns, discounts and claims expected but not yet finalized with our customers. Actual returns, discounts and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns, discounts and claims are significantly greater or lower than established reserves, we record a reduction or increase to net revenues in the period in which we make such determination.

Allowance for Uncollectible Accounts Receivable

We make ongoing estimates relating to the ability to collect our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Since we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger allowance might be required. In the event we determine that a smaller or larger allowance is appropriate, we would record a credit or a charge to Operating overhead expense in the period in which such a determination is made.

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Inventory Reserves

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

Contingent Payments under Endorsement Contracts

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

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

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). When we determine payments are probable, the amounts are recorded in Demand creation expense ratably over the contract period based on our best estimate of the endorser's performance. In these instances, to the extent that actual payments to the endorser differ from our 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. We expense these payments in Cost of sales as the related sales occur. In certain contracts, we offer minimum guaranteed royalty payments. For contracts for which we estimate we will not meet the minimum guaranteed amount of royalty fees through sales of product, we record the amount of the guaranteed payment in excess of that earned through sales of product in Demand creation expense uniformly over the contract term.

Property, Plant and Equipment and Definite-Lived Assets

We review the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate 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, we would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, we will estimate the fair value of the asset group using appropriate valuation methodologies that would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

Hedge Accounting for Derivatives

We use derivative contracts to hedge certain anticipated foreign currency and interest rate transactions as well as certain non-functional currency monetary assets and liabilities. When the specific criteria to qualify for hedge accounting has been met, changes in the fair value of contracts hedging probable forecasted future cash flows are recorded in Other comprehensive income, rather than Net income, until the underlying hedged transaction affects Net income. In most cases, this results in gains and losses on hedge derivatives being released from Other comprehensive income into Net income sometime after the maturity of the derivative. One of the criteria for this accounting treatment is that the notional value of these derivative contracts should not be in excess of specifically identified anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When anticipated transaction estimates or actual transaction amounts decline below hedged levels, or if it is no longer probable that a forecasted transaction will occur by the end of the originally

specified time period or within an additional two-month period of time thereafter, we are required to reclassify the cumulative change in fair value of the over-hedged portion of the related hedge contract from Other comprehensive income to Other (income) expense, net during the quarter in which the decrease occurs.

Stock-based Compensation

We account for stock-based compensation by estimating the fair value of stock-based compensation on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions including volatility. Expected volatility is estimated based on implied volatility in market traded options on our common stock with a term greater than one year, along with other factors. Our decision to use implied volatility was based on the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. If factors change and we use different assumptions for estimating stock-based compensation expense in future periods, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Income Taxes

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

In addition, we have not recorded U.S. income tax expense for foreign earnings that we have determined to be indefinitely reinvested outside the United States, thus reducing our overall Income tax expense. The amount of earnings designated as indefinitely reinvested offshore is based upon the actual deployment of such earnings in our offshore assets and our expectations of the future cash needs of our U.S. and foreign entities. Income tax considerations are also a factor in determining the amount of foreign earnings to be indefinitely reinvested offshore.

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We carefully review all factors that drive the ultimate disposition of foreign earnings determined to be reinvested offshore and apply stringent standards to overcome the presumption of repatriation. Despite this approach, because the determination involves our future plans and expectations of future events, the possibility exists that amounts declared as indefinitely reinvested offshore may ultimately be repatriated. For instance, the actual cash needs of our U.S. entities may exceed our current expectations, or the actual cash needs of our foreign entities may be less than our current expectations. This would result in additional Income tax expense in the year we determined that amounts were no longer indefinitely reinvested offshore. Conversely, our approach may also result in a determination that accumulated foreign earnings (for which U.S. income taxes have been provided) will be indefinitely reinvested offshore. In this case, our Income tax expense would be reduced in the year of such determination.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year. This estimated annual effective tax rate is then applied to the year-to-date Income before income taxes excluding infrequently occurring or unusual items, to determine the year-to-date Income tax expense. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs.

On a quarterly basis, we evaluate 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. We recognize interest and penalties related to income tax matters in Income tax expense.

Other Contingencies

In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships, product liability claims, trademark rights and a variety of other matters. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. If future adjustments to estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred. In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility that the ultimate loss will materially exceed the recorded liability. While we cannot predict the outcome of pending legal matters with certainty, we do not believe any currently identified claim, proceeding or litigation, either individually or in aggregate, will have a material impact on our results of operations, financial position or cash flows.

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ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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

The timing for hedging exposures, as well as the type and duration of the hedge instruments employed, are guided by our hedging policies and determined based upon the nature of the exposure and prevailing market conditions.

Typically, the Company may enter into hedge contracts starting up to 12 to 24 months in advance of the forecasted transaction and may place incremental hedges up to 100% of the exposure by the time the forecasted transaction occurs. The majority of derivatives outstanding as of May 31, 2017 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro and Japanese Yen/U.S. Dollar currency pairs. Refer to Note 16 — Risk Management and Derivatives in the accompanying Notes to the Consolidated Financial Statements for additional detail.

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

Market Risk Measurement

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

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

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

The estimated maximum one-day loss in fair value on our foreign currency sensitive derivative financial instruments, derived using the VaR model, was \$97 million and \$109 million at May 31, 2017 and 2016, respectively. The VAR decreased year-over-year as a result of a decrease in foreign currency volatilities at May 31, 2017. Such a hypothetical loss in the fair value of our derivatives would be offset by increases in the value of the underlying transactions being hedged. The average monthly change in the fair values of foreign currency forward and foreign currency option derivative instruments was \$161 million and \$209 million during fiscal 2017 and fiscal 2016, respectively. The instruments not included in the VaR are intercompany loans denominated in non-functional currencies, fixed interest rate Japanese Yen denominated debt, fixed interest rate U.S. Dollar denominated debt and interest rate swaps. Intercompany loans and related interest amounts are eliminated in consolidation. Furthermore, our non-functional currency intercompany loans are substantially hedged against foreign exchange risk through the use of forward contracts, which are included in the VaR calculation above. Therefore, we consider the interest rate and foreign currency market risks associated with our non-functional currency intercompany loans to be immaterial to our consolidated financial position, results from operations and cash flows. Details of third-party debt are provided in the table below. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

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(Dollars in millions)	Expected Maturity Date Year Ending May 31,							Total	Fair Value
	2018	2019	2020	2021	2022	Thereafter			
Foreign Exchange Risk									
Japanese Yen Functional Currency									
Long-term Japanese Yen debt — Fixed rate									
Principal payments	\$6	\$6	\$6	\$3	\$—	\$—		\$21	\$22
Average interest rate	2.4%	2.4%	2.4%	2.4%	0.0%	0.0	%	2.4	%
Interest Rate Risk									
Japanese Yen Functional Currency									
Long-term Japanese Yen debt — Fixed rate									
Principal payments	\$6	\$6	\$6	\$3	\$—	\$—		\$21	\$22
Average interest rate	2.4%	2.4%	2.4%	2.4%	0.0%	0.0	%	2.4	%
U.S. Dollar Functional Currency									
Long-term U.S. Dollar debt — Fixed rate									
Principal payments	\$—	\$—	\$—	\$—	\$—	\$3,500		\$3,500	\$3,379
Average interest rate	0.0%	0.0%	0.0%	0.0%	0.0%	3.1	%	3.1	%

The fixed interest rate Japanese Yen denominated debt instruments were issued by and are accounted for by one of our Japanese subsidiaries. Accordingly, the monthly translation of these instruments, which varies due to changes in foreign exchange rates, is recognized in Accumulated other comprehensive income upon consolidation of this subsidiary.

ITEM 8. Financial Statements and Supplementary Data

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

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

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

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Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a) - 15(f) and Rule 15(d) - 15(f) of the Securities Exchange Act of 1934, as amended.

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

While "reasonable assurance" is a high level of assurance, it does not mean absolute assurance. Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement and instance of fraud. Controls are susceptible to manipulation, especially in instances of fraud caused by the collusion of two or more people, including our senior management. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of May 31, 2017.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited (1) the Consolidated Financial Statements and (2) the effectiveness of our internal control over financial reporting as of May 31, 2017, as stated in their report herein.

Mark G. Parker

Andrew Campion

Chairman, President and Chief Executive Officer Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of NIKE, Inc. and its subsidiaries as of May 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2017 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/S/ PRICEWATERHOUSECOOPERS LLP

Portland, Oregon

July 20, 2017

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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.

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NIKE, Inc.
 Consolidated
 Statements of
 Comprehensive
 Income

(In millions)	Year Ended May 31,		
	2017	2016	2015
Net income	\$4,240	\$3,760	\$3,273
Other comprehensive income (loss), net of tax:			
Change in net foreign currency translation adjustment	16	(176)	(20)
Change in net gains (losses) on cash flow hedges	(515)	(757)	1,188
Change in net gains (losses) on other	(32)	5	(7)
Total other comprehensive income (loss), net of tax	(531)	(928)	1,161
TOTAL COMPREHENSIVE INCOME	\$3,709	\$2,832	\$4,434

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

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NIKE, Inc. Consolidated Balance Sheets

(In millions)	May 31,	
	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.

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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.

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NIKE, Inc. Consolidated Statements of Shareholders' Equity

(In millions, except per share data)	Common Stock		Capital in Accumulated		Retained Earnings	Total		
	Class A	Class B	Excess of Stated Value	Other Comprehensive Income				
	Shares	Amount	Shares	Amount				
Balance at May 31, 2014	355	\$ —	1,385	\$ 3	\$ 5,865	\$ 85	\$ 4,871	\$ 10,824
Stock options exercised			27		639			639
Repurchase of Class B Common Stock			(58)		(9)		(2,525)	(2,534)
Dividends on common stock (\$0.54 per share) and preferred stock (\$0.10 per share)							(931)	(931)
Issuance of shares to employees, net of shares withheld for employee taxes			3		87		(3)	84
Stock-based compensation					191			191
Net income							3,273	3,273
Other comprehensive income (loss)						1,161		1,161
Balance at May 31, 2015	355	\$ —	1,357	\$ 3	\$ 6,773	\$ 1,246	\$ 4,685	\$ 12,707
Stock options exercised			22		680			680
Conversion to Class B Common Stock	(2)		—					—
Repurchase of Class B Common Stock			(55)		(8)		(3,230)	(3,238)
Dividends on common stock (\$0.62 per share) and preferred stock (\$0.10 per share)							(1,053)	(1,053)
Issuance of shares to employees, net of shares withheld for employee taxes			3		105		(11)	94
Stock-based compensation					236			236
Net income							3,760	3,760
Other comprehensive income (loss)						(928)		(928)
Balance at May 31, 2016	353	\$ —	1,329	\$ 3	\$ 7,786	\$ 318	\$ 4,151	\$ 12,258
Stock options exercised			17		525			525
Conversion to Class B Common Stock	(24)		—					—
Repurchase of Class B Common Stock			(60)		(9)		(3,240)	(3,249)
Dividends on common stock (\$0.70 per share) and preferred stock (\$0.10 per share)							(1,159)	(1,159)
Issuance of shares to employees, net of shares withheld for employee taxes			4		121		(13)	108
Stock-based compensation					215			215
Net income							4,240	4,240
Other comprehensive income (loss)						(531)		(531)
Balance at May 31, 2017	329	\$ —	1,314	\$ 3	\$ 8,638	\$ (213)	\$ 3,979	\$ 12,407

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

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NOTE 1 — Summary of Significant Accounting Policies

Description of Business

NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across a wide range of sport categories, amplified with sport-inspired sportswear products carrying the Swoosh trademark as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories using the Jumpman trademark. Sales and operating results of Jordan Brand products are reported within the respective NIKE Brand geographic operating segments. The Hurley brand is focused on 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.

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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.

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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.

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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.

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Recently Adopted Accounting Standards

In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The updated guidance requires debt issuance costs to be presented as a direct deduction from the carrying amount of the corresponding debt liability on the balance sheet. The Company adopted the standard on a retrospective basis in the first quarter of fiscal 2017. The adoption of this standard reduced both Deferred income taxes and other assets and Long-term debt by \$17 million on the Consolidated Balance Sheet as of May 31, 2016.

Recently Issued Accounting Standards

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The updated guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The ASU is effective for the Company beginning June 1, 2018, using a modified retrospective approach, with the cumulative effect recognized through retained earnings at the date of adoption. Early adoption is permitted as of the beginning of an annual reporting period for which interim or annual financial statements have not been issued. The Company is evaluating the impact this update will have on its existing accounting policies and the Consolidated Financial Statements. The Company anticipates the updated guidance could have a material impact on the Consolidated Financial Statements at adoption through the recognition of a cumulative-effect adjustment to retained earnings of previously deferred charges.

In March 2016, the FASB issued ASU No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which changes how companies account for certain aspects of share-based payment awards to employees. The updated guidance requires excess tax benefits and deficiencies from share-based payment awards to be recorded in income tax expense in the income statement. Currently, excess tax benefits and deficiencies are recognized in shareholders' equity on the balance sheet. This change is required to be applied prospectively. In addition, the updated guidance also changes the accounting for statutory tax withholding requirements, classification in the statement of cash flows and provides an option to continue to estimate forfeitures or account for forfeitures as they occur. The Company will adopt the standard on June 1, 2017 and will elect to continue to estimate forfeitures. The ASU is expected to result in increased volatility to the Company's income tax expense in future periods dependent upon, among other variables, the price of its common stock and the timing and volume of share-based payment award activity, such as employee exercises of stock options and vesting of restricted stock awards.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), that replaces existing lease accounting guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will require the Company to continue to classify leases as either operating or financing, with classification affecting the pattern of expense recognition in the income statement. The Company will adopt the standard on June 1, 2019. The ASU is required to be applied using a modified retrospective approach at the beginning of the earliest period presented, with optional practical expedients. The Company is in the process of evaluating the effect the guidance will have on its existing accounting policies and the Consolidated Financial Statements, but expects there will be an increase in assets and liabilities on the Consolidated Balance Sheets at adoption due to the recording of right-of-use assets and corresponding lease liabilities, which may be material. Refer to Note 15 — Commitments and Contingencies for information about the Company's lease obligations.

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), that replaces existing revenue recognition guidance. The updated guidance requires companies to recognize revenue in a way that

depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company will adopt the standard on June 1, 2018 using a modified retrospective approach with the cumulative effective of initially applying the new standard recognized in retained earnings at the date of initial application. The Company is in the process of evaluating the new standard against its existing accounting policies, including the timing of revenue recognition, and its contracts with customers, to determine the effect the guidance will have on the Consolidated Financial Statements.

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.

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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.

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

(In millions)	As of May 31, 2016			
	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

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

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.

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(In millions)	As of May 31, 2016			As of May 31, 2016		
	Derivative Assets			Derivative Liabilities		
	Assets at Fair Value	Other Current Assets	Other Long-term Assets	Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options ⁽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

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

(1) 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.

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,		As of May 31,	
	2017	2016	2017	2016
	Borrowings	Interest Rate	Borrowings	Interest Rate
Notes payable:				
Commercial paper	\$325	0.86 %	\$—	0.00 %

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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 %
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(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.

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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	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.

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 (2) 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.

NIKE Logistics YK assumed a total of ¥13.0 billion in loans as part of its agreement to purchase a distribution (3) 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:

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(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

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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.

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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

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

(In millions)	As of May 31,		
	2017	2016	2015
Unrecognized tax benefits, beginning of the period	\$506	\$438	\$506
Gross increases related to prior period tax positions	31	49	32
Gross decreases related to prior period tax positions	(163)	(20)	(123)
Gross increases related to current period tax positions	115	81	82
Gross decreases related to current period tax positions	—	—	(9)
Settlements	(12)	(13)	(27)
Lapse of statute of limitations	(21)	(17)	(10)
Changes due to currency translation	5	(12)	(13)
UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD	\$461	\$506	\$438

As of May 31, 2017, total gross unrecognized tax benefits, excluding related interest and penalties, were \$461 million, \$230 million of which would affect the Company's effective tax rate if recognized in future periods.

The Company recognizes interest and penalties related to income tax matters in Income tax expense. The liability for payment of interest and penalties decreased by \$38 million during the year ended May 31, 2017, increased by \$45 million during the year ended May 31, 2016 and decreased by \$3 million during the year ended May 31, 2015. As of May 31, 2017 and 2016, accrued interest and penalties related to uncertain tax positions were \$171 million and \$209 million, respectively (excluding federal benefit).

The Company is subject to taxation in the United States as well as various state and foreign jurisdictions. As previously disclosed, the Company received statutory notices of deficiency from the IRS for fiscal 2011 and fiscal 2012 proposing a total increase in tax of \$254 million, subject to interest, related to a foreign tax credit matter. The Company contested these deficiencies by filing petitions with the U.S Tax Court. During the three months ended August 31, 2016, the Company reached a resolution with the IRS on this matter. Decisions were subsequently filed in U.S. District Tax Court stating there is no deficiency in income tax due from the Company. In the current period, the Company closed all U.S. federal income tax matters for fiscal years 2013 and 2014, with the exception of certain

transfer pricing adjustments. The Company is currently under audit by the IRS for fiscal years 2015 and 2016. The Company's major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar 2006 and fiscal 2010, respectively. Although the timing of resolution of audits is not certain, the Company evaluates all domestic and foreign audit issues in the aggregate, along with the expiration of applicable statutes of limitations, and estimates that it is reasonably possible the total gross unrecognized tax benefits could decrease by up to \$69 million within the next 12 months.

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The Company provides for U.S. income taxes on the undistributed earnings of foreign subsidiaries unless they are considered indefinitely reinvested outside the United States. At May 31, 2017, the indefinitely reinvested earnings in foreign subsidiaries upon which United States income taxes have not been provided were approximately \$12.2 billion. If these undistributed earnings were repatriated to the United States or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, they would generate foreign tax credits that would reduce the federal tax liability associated with the foreign dividend or the otherwise taxable transaction. Assuming a full utilization of the foreign tax credits, the potential net deferred tax liability associated with these temporary differences of undistributed earnings would be approximately \$4.1 billion at May 31, 2017.

A portion of the Company's foreign operations are benefiting from a tax holiday, which is set to expire in 2021. This tax holiday may be extended when certain conditions are met or may be terminated early if certain conditions are not met. The tax benefit attributable to this tax holiday was \$187 million, \$173 million and \$174 million for the fiscal years ended May 31, 2017, 2016 and 2015, respectively. The benefit of the tax holiday on diluted earnings per common share was \$0.11, \$0.10 and \$0.10 for the fiscal years ended May 31, 2017, 2016 and 2015, respectively. Deferred tax assets at May 31, 2017 and 2016 were reduced by a valuation allowance primarily relating to tax benefits of certain entities with operating losses. There was a \$30 million net increase in the valuation allowance for the year ended May 31, 2017, compared to a net increase of \$43 million for the year ended May 31, 2016 and no net change for the year ended May 31, 2015.

The Company has recorded deferred tax assets of \$208 million at May 31, 2017 for foreign tax credit carry-forwards which expire in 2027.

The Company has available domestic and foreign loss carry-forwards of \$266 million at May 31, 2017. Such losses will expire as follows:

	Year Ending May 31,						
(In millions)	2018	2019	2020	2021	2022-2035	Indefinite	Total
Net operating losses	\$ 5	\$ 1	\$ 1	\$ 1	\$ 62	\$ 196	\$ 266

During the years ended May 31, 2017, 2016 and 2015, income tax benefits attributable to employee stock-based compensation transactions of \$177 million, \$281 million and \$224 million, respectively, were allocated to Total shareholders' equity.

NOTE 10 — Redeemable Preferred Stock

Sojitz America is the sole owner of the Company's authorized redeemable preferred stock, \$1 par value, which is redeemable at the option of Sojitz America or the Company at par value aggregating \$0.3 million. A cumulative dividend of \$0.10 per share is payable annually on May 31 and no dividends may be declared or paid on the common stock of the Company unless dividends on the redeemable preferred stock have been declared and paid in full. There have been no changes in the redeemable preferred stock in the three years ended May 31, 2017, 2016 and 2015. As the holder of the redeemable preferred stock, Sojitz America does not have general voting rights, but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries, on merger, consolidation, liquidation or dissolution of the Company or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States. The redeemable preferred stock has been fully issued to Sojitz America and is not blank check preferred stock. The Company's articles of incorporation do not permit the issuance of additional preferred stock.

NOTE 11 — Common Stock and Stock-Based Compensation

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

The NIKE, Inc. Stock Incentive Plan (the "Stock Incentive Plan") provides for the issuance of up to 718 million previously unissued shares of Class B Common Stock in connection with stock options and other awards granted under the Stock Incentive Plan. The Stock Incentive Plan authorizes the grant of non-statutory stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based awards. The

exercise price for stock options and stock appreciation rights may not be less than the fair market value of the underlying shares on the date of grant. A committee of the Board of Directors administers the Stock Incentive Plan. The committee has the authority to determine the employees to whom awards will be made, the amount of the awards and the other terms and conditions of the awards. Substantially all stock option grants outstanding under the Stock Incentive Plan are granted in the first quarter of each fiscal year, vest ratably over four years and expire ten years from the date of grant.

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

(In millions)	Year Ended May		
	2017	2016	2015
Stock options ⁽¹⁾	\$145	\$171	\$136
ESPPs	36	31	24
Restricted stock	34	34	31
TOTAL STOCK-BASED COMPENSATION EXPENSE	\$215	\$236	\$191

Expense for stock options includes the expense associated with stock appreciation rights. Accelerated stock option expense is recorded for employees eligible for accelerated stock option vesting upon retirement. Accelerated stock option expense was \$14 million, \$30 million and \$19 million for the years ended May 31, 2017, 2016 and 2015, respectively.

As of May 31, 2017, the Company had \$201 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in Operating overhead expense over a weighted average remaining period of 1.9 years.

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The weighted average fair value per share of the options granted during the years ended May 31, 2017, 2016 and 2015, computed as of the grant date using the Black-Scholes pricing model, was \$9.38, \$12.66 and \$8.48, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Year Ended May 31,		
	2017	2016	2015
Dividend yield	1.1 %	1.0 %	1.2 %
Expected volatility	17.4%	23.6%	23.6%
Weighted average expected life (in years)	6.0	5.8	5.8
Risk-free interest rate	1.3 %	1.7 %	1.7 %

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

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

	Shares ⁽¹⁾	Weighted Average Option Price
	(In millions)	
Options outstanding May 31, 2014	127.1	\$ 19.64
Exercised	(27.2)	15.39
Forfeited	(2.1)	29.51
Granted	18.4	38.84
Options outstanding May 31, 2015	116.2	23.50
Exercised	(22.5)	17.75
Forfeited	(2.3)	39.96
Granted	20.6	56.41
Options outstanding May 31, 2016	112.0	30.38
Exercised	(17.1)	20.42
Forfeited	(2.3)	49.47
Granted	12.2	57.81
Options outstanding May 31, 2017	104.8	\$ 34.79
Options exercisable at May 31,		
2015	68.6	\$ 18.26
2016	66.5	21.48
2017	67.9	26.03

(1)Includes stock appreciation rights transactions.

The weighted average contractual life remaining for options outstanding and options exercisable at May 31, 2017 was 5.7 years and 4.5 years, respectively. The aggregate intrinsic value for options outstanding and exercisable at May 31, 2017 was \$2,027 million and \$1,846 million, respectively. The aggregate intrinsic value was the amount by which the market value of the underlying stock exceeded the exercise price of the options. The total intrinsic value of the options exercised during the years ended May 31, 2017, 2016 and 2015 was \$594 million, \$946 million and \$795 million, respectively.

In addition to the Stock Incentive Plan, the Company gives employees the right to purchase shares at a discount to the market price under employee stock purchase plans (ESPPs). Subject to the annual statutory limit, employees are eligible to participate through payroll deductions of up to 10% of their compensation. At the end of each six-month offering period, shares are purchased by the participants at 85% of the lower of the fair market value at the beginning or the end of the offering period. Employees purchased 3.1 million, 2.5 million and 2.7 million shares during each of the three years ended May 31, 2017, 2016 and 2015, respectively.

From time to time, the Company grants restricted stock and restricted stock units to key employees under the Stock Incentive Plan. The number of shares underlying such awards granted to employees during the years ended May 31, 2017, 2016 and 2015 were 0.4 million, 1.0 million and 0.5 million, respectively, with weighted average values per share of \$57.59, \$54.87 and \$39.69, respectively. Recipients of restricted stock are entitled to cash dividends and to vote their respective shares throughout the period of restriction. Recipients of restricted stock units are entitled to dividend equivalent cash payments upon vesting. The value of all grants of restricted stock and restricted stock units was established by the market price on the date of grant. During the years ended May 31, 2017, 2016 and 2015, the aggregate fair value of restricted stock and restricted stock units vested was \$60 million, \$49 million and \$20 million, respectively, determined as of the date of vesting. As of May 31, 2017, the Company had \$43 million of unrecognized compensation costs from restricted stock and restricted stock units to be recognized in Operating overhead expense over a weighted average period of 2.4 years.

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NOTE 12 — Earnings Per Share

The following is a reconciliation from basic earnings per common share to diluted earnings per common share. The computations of diluted earnings per common share excluded options, including shares under employee stock purchase plans, to purchase an additional 30.5 million, 0.2 million and 1.7 million shares of common stock outstanding for the years ended May 31, 2017, 2016 and 2015, respectively, because the options were anti-dilutive.

(In millions, except per share data)	Year Ended May 31,		
	2017	2016	2015
Determination of shares:			
Weighted average common shares outstanding	1,657.8	1,697.9	1,723.5
Assumed conversion of dilutive stock options and awards	34.2	44.6	45.3
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	1,692.0	1,742.5	1,768.8
Earnings per common share:			
Basic	\$2.56	\$ 2.21	\$ 1.90
Diluted	\$2.51	\$ 2.16	\$ 1.85

NOTE 13 — Benefit Plans

The Company has a qualified 401(k) Savings and Profit Sharing Plan, in which all U.S. employees are able to participate. The Company matches a portion of employee contributions to the savings plan. Company contributions to the savings plan were \$75 million, \$72 million and \$58 million and included in Operating overhead expense for the years ended May 31, 2017, 2016 and 2015, respectively. The terms of the plan also allow for annual discretionary profit sharing contributions, as determined by the Board of Directors, to the accounts of eligible U.S. employees who work at least 1,000 hours in a year. Profit sharing contributions of \$68 million, \$64 million and \$58 million were made to the plan and included in Operating overhead expense for the years ended May 31, 2017, 2016 and 2015, respectively.

The Company also has a Long-Term Incentive Plan (LTIP) that was adopted by the Board of Directors and approved by shareholders in September 1997 and later amended and approved in fiscal 2007 and fiscal 2012. The Company recognized \$21 million, \$85 million and \$68 million of Operating overhead expense related to cash awards under the LTIP during the years ended May 31, 2017, 2016 and 2015, respectively.

The Company allows certain highly compensated employees and non-employee directors of the Company to defer compensation under a nonqualified deferred compensation plan. Deferred compensation plan liabilities were \$569 million and \$475 million at May 31, 2017 and 2016, respectively, and primarily classified as long-term in Deferred income taxes and other liabilities.

The Company has pension plans in various countries worldwide. The pension plans are only available to local employees and are generally government mandated. The liability related to the unfunded pension liabilities of the plans was \$107 million and \$93 million at May 31, 2017 and 2016, respectively, and primarily classified as long-term in Deferred income taxes and other liabilities.

NOTE 14 — Accumulated Other Comprehensive Income

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

(In millions)	Foreign Currency Translation Adjustment ⁽¹⁾	Cash Flow Hedges	Net Investment Hedges ⁽¹⁾	Other	Total
Balance at May 31, 2016	\$ (207)	\$ 463	\$ 115	\$(53)	\$318
Other comprehensive gains (losses) before reclassifications ⁽²⁾	15	118	—	(14)	119
Reclassifications to net income of previously deferred (gains) losses ⁽³⁾	1	(633)	—	(18)	(650)
Other comprehensive income (loss)	16	(515)	—	(32)	(531)
Balance at May 31, 2017	\$ (191)	\$ (52)	\$ 115	\$(85)	\$(213)

(1)

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

(2) Net of tax benefit (expense) of \$0 million, \$24 million, \$0 million, \$3 million and \$27 million, respectively.

(3) Net of tax (benefit) expense of \$0 million, \$(3) million, \$0 million, \$(3) million and \$(6) million, respectively.

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(In millions)	Foreign Currency Translation Adjustment ⁽¹⁾	Cash Flow Hedges	Net Investment Hedges ⁽¹⁾	Other	Total
Balance at May 31, 2015	\$ (31)	\$ 1,220	\$ 115	\$(58)	\$ 1,246
Other comprehensive gains (losses) before reclassifications ⁽²⁾	(178)	(47)	—	6	(219)
Reclassifications to net income of previously deferred (gains) losses ⁽³⁾	2	(710)	—	(1)	(709)
Other comprehensive income (loss)	(176)	(757)	—	5	(928)
Balance at May 31, 2016	\$ (207)	\$ 463	\$ 115	\$(53)	\$ 318

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

(2) Net of tax benefit (expense) of \$0 million, \$28 million, \$0 million, \$(2) million and \$26 million, respectively.

(3) Net of tax (benefit) expense of \$0 million, \$7 million, \$0 million, \$2 million and \$9 million, respectively.

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

(In millions)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income Year Ended May 31,		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income
	2017	2016	
Gains (losses) on foreign currency translation adjustment	(1)	(2)	Other (income) expense, net
Total before tax	(1)	(2)	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	(1)	(2)	
Gains (losses) on cash flow hedges:			
Foreign exchange forwards and options	96	(88)	Revenues
Foreign exchange forwards and options	339	586	Cost of sales
Foreign exchange forwards and options	—	—	Total selling and administrative expense
Foreign exchange forwards and options	199	219	Other (income) expense, net
Interest rate swaps	(4)	—	Interest expense (income), net
Total before tax	630	717	
Tax (expense) benefit	3	(7)	
Gain (loss) net of tax	633	710	
Gains (losses) on other	15	3	Other (income) expense, net
Total before tax	15	3	

Tax (expense) benefit	3	(2)
Gain (loss) net of tax	18	1
Total net gain (loss) reclassified for the period	\$ 650	\$ 709

Refer to Note 16 — Risk Management and Derivatives for more information on the Company's risk management program and derivatives.

NOTE 15 — Commitments and Contingencies

The Company leases retail store space, certain distribution and warehouse facilities, 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.

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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.

NOTE 16 — Risk Management and Derivatives

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

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

The majority of derivatives outstanding as of May 31, 2017 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro and Japanese Yen/U.S. Dollar currency pairs. All derivatives are recognized on the Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date. The following table presents the fair values of derivative instruments included within the Consolidated Balance Sheets as of May 31, 2017 and 2016:

(In millions)	Asset Derivatives Balance Sheet Location		Liability Derivatives Balance Sheet Location			
	2017	2016	2017	2016		
Derivatives formally designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	\$113	\$447	Accrued liabilities	\$59	\$38
Interest rate swaps	Prepaid expenses and other current assets	—	7	Accrued liabilities	—	45
Foreign exchange forwards and options	Deferred income taxes and other assets	13	90	Deferred income taxes and other liabilities	73	12
Interest rate swaps	Deferred income taxes and other assets	—	—	Deferred income taxes and other liabilities	—	—
Total derivatives formally designated as hedging instruments		126	544		132	95
Derivatives not designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	103	40	Accrued liabilities	107	76
Embedded derivatives	Prepaid expenses and other current assets	1	2	Accrued liabilities	2	2
Foreign exchange forwards and options	Deferred income taxes and other assets	2	26	Deferred income taxes and other liabilities	7	19
Embedded derivatives	Deferred income taxes and other assets	9	5	Deferred income taxes and other liabilities	6	7

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Total derivatives not designated as hedging instruments	115	73	122	104
TOTAL DERIVATIVES	\$241	\$617	\$254	\$199

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The following tables present the amounts affecting the Consolidated Statements of Income for the years ended May 31, 2017, 2016 and 2015:

(In millions)	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives ⁽¹⁾			Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income ⁽¹⁾	Location of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income	Year Ended May 31,		
	Year Ended May 31,					Year Ended May 31,		
	2017	2016	2015			2017	2016	2015
Derivatives designated as cash flow hedges:								
Foreign exchange forwards and options	\$ 72	\$ 90	\$ (202)	Revenues	\$ 96	\$ (88)	\$ (95)	
Foreign exchange forwards and options	43	(57)	1,109	Cost of sales	339	586	220	
Foreign exchange forwards and options	(4)	—	—	Total selling and administrative expense	—	—	—	
Foreign exchange forwards and options	37	(25)	497	Other (income) expense, net	199	219	136	
Interest rate swaps	(54)	(83)	76	Interest expense (income), net	(4)	—	—	
Total designated cash flow hedges	94	(75)	1,480		630	717	261	

For the years ended May 31, 2017, 2016 and 2015, the amounts recorded in Other (income) expense, net as a result (1) of hedge ineffectiveness and the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.

(In millions)	Amount of Gain (Loss) Recognized in Income on Derivatives			Location of Gain (Loss) Recognized in Income on Derivatives
	Year Ended May 31,			
	2017	2016	2015	
Derivatives designated as fair value hedges:				
Interest rate swaps ⁽¹⁾	\$ —	\$ 2	\$ 5	Interest expense (income), net
Derivatives not designated as hedging instruments:				
Foreign exchange forwards and options	(44)	(68)	611	Other (income) expense, net
Embedded derivatives	\$ (2)	\$ (2)	\$ (1)	Other (income) expense, net

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

Refer to Note 6 — Fair Value Measurements for a description of how the above financial instruments are valued and Note 14 — Accumulated Other Comprehensive Income and the Consolidated Statements of Shareholders’ Equity for additional information on changes in Accumulated other comprehensive income for the years ended May 31, 2017, 2016 and 2015.

Cash Flow Hedges

The purpose of the Company's foreign exchange risk management program is to lessen both the positive and negative effects of currency fluctuations on the Company's consolidated results of operations, financial position and cash flows. Foreign currency exposures that the Company may elect to hedge in this manner include product cost exposures, non-functional currency denominated external and intercompany revenues, selling and administrative expenses, investments in U.S. Dollar-denominated available-for-sale debt securities and certain other intercompany transactions.

Product cost exposures are primarily generated through non-functional currency denominated product purchases and the foreign currency adjustment program described below. NIKE entities primarily purchase products in two ways: (1) Certain NIKE entities purchase product from the NIKE Trading Company (“NTC”), a wholly owned sourcing hub that buys NIKE branded products from third party factories, predominantly in U.S. Dollars. The NTC, whose functional currency is the U.S. Dollar, then sells the product to NIKE entities in their respective functional currencies. When the NTC sells to a NIKE entity with a different functional currency, the result is a foreign currency exposure for the NTC. (2) Other NIKE entities purchase product directly from third party factories in U.S. Dollars. These purchases generate a foreign currency exposure for those NIKE entities with a functional currency other than the U.S. Dollar.

The Company operates a foreign currency adjustment program with certain factories. The program is designed to more effectively manage foreign currency risk by assuming certain of the factories’ foreign currency exposures, some of which are natural offsets to the Company's existing foreign currency exposures. Under this program, the Company’s payments to these factories are adjusted for rate fluctuations in the basket of currencies (“factory currency exposure index”) in which the labor, materials and overhead costs incurred by the factories in the production of NIKE branded products (“factory input costs”) are denominated. For the portion of the indices denominated in the local or functional currency of the factory, the Company may elect to place formally designated cash flow hedges. For all currencies within the indices, excluding the U.S. Dollar and the local or functional currency of the factory, an embedded derivative contract is created upon the factory’s acceptance of NIKE’s purchase order. Embedded derivative contracts are separated from the related purchase order, as further described within the Embedded Derivatives section below. The Company’s policy permits the utilization of derivatives to reduce its foreign currency exposures where internal netting or other strategies cannot be effectively employed. Typically, the Company may enter into hedge contracts starting up to 12 to 24 months in advance of the forecasted transaction and may place incremental hedges up to 100% of the exposure by the time the forecasted transaction occurs. The total notional amount of outstanding foreign currency derivatives designated as cash flow hedges was \$11.1 billion as of May 31, 2017.

During the second quarter of fiscal 2017, the Company terminated all forward-starting interest rate swap agreements with a total notional amount of \$1.5 billion in connection with the October 21, 2016 debt issuance (refer to Note 8 - Long-Term Debt). Upon termination of these forward-starting swaps, the Company made cash payments to the related counterparties of \$92 million, which was recorded in Accumulated other comprehensive

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income and will be released through Interest expense (income), net as interest expense is incurred over the term of the issued debt. During the second quarter of fiscal 2016, the Company terminated certain forward-starting interest rate swaps with a total notional amount of \$1 billion in connection with the October 29, 2015 debt issuance (refer to Note 8 — Long-Term Debt). Upon termination of these forward-starting swaps, the Company received cash payments from the related counterparties of \$34 million, which was recorded in Accumulated other comprehensive income and will be released through Interest expense (income), net as interest expense is incurred over the term of the issued debt. All changes in fair value of derivatives designated as cash flow hedges, excluding any ineffective portion, are recorded in Accumulated other comprehensive income until Net income is affected by the variability of cash flows of the hedged transaction. In most cases, amounts recorded in Accumulated other comprehensive income will be released to Net income in periods following the maturity of the related derivative, rather than at maturity. Effective hedge results are classified within the Consolidated Statements of Income in the same manner as the underlying exposure. The results of hedges of non-functional currency denominated revenues and product cost exposures, excluding embedded derivatives, are recorded in Revenues or Cost of sales when the underlying hedged transaction affects consolidated Net income. Results of hedges of selling and administrative expense are recorded together with those costs when the related expense is recorded. Amounts recorded in Accumulated other comprehensive income related to forward-starting interest rate swaps will be released through Interest expense (income), net as interest expense is incurred over the term of the issued debt. Results of hedges of anticipated purchases and sales of U.S. Dollar-denominated available-for-sale securities are recorded in Other (income) expense, net when the securities are sold. Results of hedges of certain anticipated intercompany transactions are recorded in Other (income) expense, net when the transaction occurs. The Company classifies the cash flows at settlement from these designated cash flow hedge derivatives in the same category as the cash flows from the related hedged items, primarily within the Cash provided by operations component of the Consolidated Statements of Cash Flows. Premiums paid or received on options are initially recorded as deferred charges or deferred credits, respectively. The Company assesses the effectiveness of options based on the total cash flows method and records total changes in the options' fair value to Accumulated other comprehensive income to the degree they are effective. The Company formally assesses, both at a hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Effectiveness for cash flow hedges is assessed based on changes in forward rates. Ineffectiveness was immaterial for the years ended May 31, 2017, 2016 and 2015. The Company discontinues hedge accounting prospectively when: (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate. When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, but is expected to occur within an additional two-month period of time thereafter, the gain or loss on the derivative remains in Accumulated other comprehensive income and is reclassified to Net income when the forecasted transaction affects consolidated Net income. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were in Accumulated other comprehensive income will be recognized immediately in Other (income) expense, net. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the Consolidated Balance Sheets, recognizing future changes in the fair value in Other (income) expense, net. For the years ended May 31, 2017, 2016 and 2015, the amounts recorded in Other (income) expense, net as a result of the discontinuance of cash flow hedging because the forecasted transaction was no longer probable of occurring were immaterial. As of May 31, 2017, \$100 million of deferred net gains (net of tax) on both outstanding and matured derivatives in Accumulated other comprehensive income are expected to be reclassified to Net income during the next 12 months concurrent with the underlying hedged transactions also being recorded in Net income. Actual amounts ultimately

reclassified to Net income are dependent on the exchange rates in effect when derivative contracts that are currently outstanding mature. As of May 31, 2017, the maximum term over which the Company is hedging exposures to the variability of cash flows for its forecasted transactions was 24 months.

Fair Value Hedges

The Company has, in the past, been exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates. Derivatives used by the Company to hedge this risk are receive-fixed, pay-variable interest rate swaps. All interest rate swaps designated as fair value hedges of the related long-term debt meet the shortcut method requirements under U.S. GAAP. Accordingly, changes in the fair values of the interest rate swaps are considered to exactly offset changes in the fair value of the underlying long-term debt. The cash flows associated with the Company's fair value hedges are periodic interest payments while the swaps are outstanding, which are reflected within the Cash provided by operations component of the Consolidated Statements of Cash Flows. The Company recorded no ineffectiveness from its interest rate swaps designated as fair value hedges for the years ended May 31, 2017, 2016 or 2015. On October 15, 2015, the Company repaid the long-term debt which had previously been hedged with these interest rate swaps. Accordingly, as of May 31, 2017, the Company had no interest rate swaps designated as fair value hedges.

Net Investment Hedges

The Company has, in the past, hedged and may, in the future, hedge the risk of variability in foreign-currency-denominated net investments in wholly-owned international operations. All changes in fair value of the derivatives designated as net investment hedges, except ineffective portions, are reported in Accumulated other comprehensive income along with the foreign currency translation adjustments on those investments. The Company classifies the cash flows at settlement of its net investment hedges within the Cash used by investing activities component of the Consolidated Statements of Cash Flows. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from net investment hedges for the years ended May 31, 2017, 2016 or 2015. The Company had no outstanding net investment hedges as of May 31, 2017.

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Undesignated Derivative Instruments

The Company may elect to enter into foreign exchange forwards to mitigate the change in fair value of specific assets and liabilities on the Consolidated Balance Sheets and/or the embedded derivative contracts. These forwards are not designated as hedging instruments under U.S. GAAP. Accordingly, these undesignated instruments are recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheets with their corresponding change in fair value recognized in Other (income) expense, net, together with the re-measurement gain or loss from the hedged balance sheet position or embedded derivative contract. The Company classifies the cash flows at settlement from undesignated instruments in the same category as the cash flows from the related hedged items, primarily within the Cash provided by operations component of the Consolidated Statements of Cash Flows. The total notional amount of outstanding undesignated derivative instruments was \$10.5 billion as of May 31, 2017.

Embedded Derivatives

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

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

At May 31, 2017, the total notional amount of all embedded derivatives outstanding was approximately \$265 million.

Credit Risk

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

The Company's derivative contracts contain credit risk-related contingent features designed to protect against significant deterioration in counterparties' creditworthiness and their ultimate ability to settle outstanding derivative contracts in the normal course of business. The Company's bilateral credit-related contingent features generally require the owing entity, either the Company or the derivative counterparty, to post collateral for the portion of the fair value in excess of \$50 million should the fair value of outstanding derivatives per counterparty be greater than \$50 million. Additionally, a certain level of decline in credit rating of either the Company or the counterparty could also trigger collateral requirements. As of May 31, 2017, the Company was in compliance with all credit risk-related contingent features and had derivative instruments with credit risk-related contingent features in a net liability position of \$59 million. However, no derivative instruments with credit risk-related contingent features in a net liability position were greater than \$50 million by counterparty. Accordingly, the Company was not required to post any collateral as a result of these contingent features. Further, as of May 31, 2017, the Company had received no cash collateral from various counterparties to its derivative contracts (refer to Note 6 — Fair Value Measurements). Given the considerations described above, the Company considers the impact of the risk of counterparty default to be immaterial.

NOTE 17 — Operating Segments and Related Information

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

Each NIKE Brand geographic segment operates predominantly in one industry: the design, development, marketing and selling of athletic footwear, apparel and equipment. The Company's reportable operating segments for the NIKE Brand are: North America, Western Europe, Central & Eastern Europe, Greater China, Japan and Emerging Markets, and include results for the NIKE, Jordan and Hurley brands.

In June 2017, NIKE, Inc. announced a new company alignment designed to allow NIKE to better serve the consumer personally, at scale. As a result of this organizational realignment, beginning in fiscal 2018, the Company's reportable operating segments for the NIKE Brand will be: North America; Europe, Middle East and Africa; Greater China; and Asia Pacific and Latin America.

The Company's NIKE Brand Direct to Consumer (DTC) operations are, and will continue to be, managed within each geographic operating segment. Converse is also a reportable segment for the Company, and operates in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories.

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

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

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

As part of the Company's centrally managed foreign exchange risk management program, standard foreign currency rates are assigned twice per year to each NIKE Brand entity in the Company's geographic operating segments and to Converse. These rates are set approximately nine and twelve months in advance of the future selling seasons to which they relate (specifically, for each currency, one standard rate applies to the fall and holiday selling seasons and one standard rate applies to the spring and summer selling seasons) based on average market spot rates in the calendar month preceding the date they are established. Inventories and Cost of sales for geographic operating segments and Converse reflect the use of these standard rates to record non-functional currency product purchases in the entity's functional currency. Differences between assigned standard foreign currency rates and actual market rates are included in Corporate, together with foreign currency hedge gains and losses generated from the Company's centrally managed foreign exchange risk management program and other conversion gains and losses.

Accounts receivable, net, Inventories and Property, plant and equipment, net for operating segments are regularly reviewed by management and are therefore provided below. Additions to long-lived assets as presented in the following table represent capital expenditures.

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(In millions)	Year Ended May 31,		
	2017	2016	2015
REVENUES			
North America	\$15,216	\$14,764	\$13,740
Western Europe	6,211	5,884	5,705
Central & Eastern Europe	1,487	1,431	1,421
Greater China	4,237	3,785	3,067
Japan	1,014	869	755
Emerging Markets	3,995	3,701	3,898
Global Brand Divisions	73	73	115
Total NIKE Brand	32,233	30,507	28,701
Converse	2,042	1,955	1,982
Corporate	75	(86)	(82)
TOTAL NIKE, INC. REVENUES	\$34,350	\$32,376	\$30,601
EARNINGS BEFORE INTEREST AND TAXES			
North America	\$3,875	\$3,763	\$3,645
Western Europe	1,203	1,434	1,275
Central & Eastern Europe	244	289	249
Greater China	1,507	1,372	993
Japan	224	174	100
Emerging Markets	816	892	818
Global Brand Divisions	(2,677)	(2,596)	(2,267)
Total NIKE Brand	5,192	5,328	4,813
Converse	477	487	517
Corporate	(724)	(1,173)	(1,097)
Total NIKE, Inc. Earnings Before Interest and Taxes	4,945	4,642	4,233
Interest expense (income), net	59	19	28
TOTAL NIKE, INC. INCOME BEFORE INCOME TAXES	\$4,886	\$4,623	\$4,205
ADDITIONS TO LONG-LIVED ASSETS			
North America	\$223	\$242	\$208
Western Europe	162	215	216
Central & Eastern Europe	10	17	20
Greater China	51	44	69
Japan	21	13	15
Emerging Markets	39	51	37
Global Brand Divisions	278	258	225
Total NIKE Brand	784	840	790
Converse	30	39	69
Corporate	387	312	144
TOTAL ADDITIONS TO LONG-LIVED ASSETS	\$1,201	\$1,191	\$1,003
DEPRECIATION			
North America	\$140	\$133	\$121
Western Europe	91	72	75
Central & Eastern Europe	13	12	12
Greater China	54	48	46
Japan	18	18	22
Emerging Markets	38	25	27
Global Brand Divisions	233	230	210
Total NIKE Brand	587	538	513

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Converse	28	27	18
Corporate	91	84	75
TOTAL DEPRECIATION	\$706	\$649	\$606

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(In millions)	As of May 31,	
	2017	2016
ACCOUNTS RECEIVABLE, NET		
North America	\$1,798	\$1,689
Western Europe	410	378
Central & Eastern Europe	228	194
Greater China	102	74
Japan	151	129
Emerging Markets	594	409
Global Brand Divisions	86	76
Total NIKE Brand	3,369	2,949
Converse	297	270
Corporate	11	22
TOTAL ACCOUNTS RECEIVABLE, NET	\$3,677	\$3,241
INVENTORIES		
North America	\$2,218	\$2,363
Western Europe	1,035	929
Central & Eastern Europe	251	210
Greater China	463	375
Japan	127	146
Emerging Markets	608	478
Global Brand Divisions	68	35
Total NIKE Brand	4,770	4,536
Converse	286	306
Corporate	(1)	(4)
TOTAL INVENTORIES	\$5,055	\$4,838
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	\$819	\$742
Western Europe	658	589
Central & Eastern Europe	48	50
Greater China	225	234
Japan	223	223
Emerging Markets	120	109
Global Brand Divisions	533	511
Total NIKE Brand	2,626	2,458
Converse	125	125
Corporate	1,238	937
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	\$3,989	\$3,520

Revenues by Major Product Lines

Revenues from external customers for NIKE Brand products are attributable to sales of footwear, apparel and equipment. Other revenues from external customers consist primarily of sales by Converse.

(In millions)	Year Ended May 31,		
	2017	2016	2015
Footwear	\$21,081	\$19,871	\$18,318
Apparel	9,654	9,067	8,637
Equipment	1,425	1,496	1,631
Other	2,190	1,942	2,015
TOTAL NIKE, INC. REVENUES	\$34,350	\$32,376	\$30,601

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Revenues and Long-Lived Assets by Geographic Area

After allocation of revenues for Global Brand Divisions, Converse and Corporate to geographical areas based on the location where the sales originated, revenues by geographical area are essentially the same as reported above for the NIKE Brand operating segments with the exception of the United States. Revenues derived in the United States were \$15,778 million, \$15,304 million and \$14,180 million for the years ended May 31, 2017, 2016 and 2015, respectively. The Company's largest concentrations of long-lived assets primarily consist of the Company's world headquarters and distribution facilities in the United States and distribution facilities in Belgium, China and Japan. Long-lived assets attributable to operations in the United States, which are primarily composed of net property, plant & equipment, were \$2,629 million and \$2,241 million at May 31, 2017 and 2016, respectively. Long-lived assets attributable to operations in Belgium were \$390 million and \$348 million at May 31, 2017 and 2016, respectively. Long-lived assets attributable to operations in China were \$232 million and \$240 million at May 31, 2017 and 2016, respectively. Long-lived assets attributable to operations in Japan were \$223 million and \$223 million at May 31, 2017 and 2016, respectively.

Major Customers

No customer accounted for 10% or more of the Company's net revenues during the years ended May 31, 2017, 2016 and 2015.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

ITEM 9A. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carry out a variety of ongoing procedures, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of May 31, 2017.

"Management's Annual Report on Internal Control Over Financial Reporting" is included in Item 8 of this Report. We have continued several transformation initiatives to centralize and simplify our business processes and systems. These are long-term initiatives, which we believe will enhance our internal control over financial reporting due to increased automation and further integration of related processes. We will continue to monitor our internal control over financial reporting for effectiveness throughout the transformation.

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

ITEM 9B. Other Information

No disclosure is required under this Item.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Item 401 of Regulation S-K regarding directors is included under “Election of Directors” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding executive officers is included under “Executive Officers of the Registrant” in Item 1 of this Report. The information required by Item 405 of Regulation S-K is included under “Election of Directors — Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 406 of Regulation S-K is included under “Corporate Governance — Code of Business Conduct and Ethics” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K regarding the Audit Committee of the Board of Directors is included under “Corporate Governance — Board Committees” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. Executive Compensation

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K regarding executive compensation is included under “Election of Directors — Director Compensation for Fiscal 2017,” “Compensation Discussion and Analysis,” “Executive Compensation,” “Election of Directors — Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 201(d) of Regulation S-K is included under “Executive Compensation — Equity Compensation Plans” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 403 of Regulation S-K is included under “Election of Directors — Stock Holdings of Certain Owners and Management” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

The information required by Items 404 and 407(a) of Regulation S-K is included under “Election of Directors — Transactions with Related Persons” and “Corporate Governance — Director Independence” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

The information required by Item 9(e) of Schedule 14A is included under “Ratification of Independent Registered Public Accounting Firm” in the definitive Proxy Statement for our 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

	Form 10-K Page No.
1. Financial Statements:	
Report of Independent Registered Public Accounting Firm	<u>45</u>
Consolidated Statements of Income for each of the three years ended May 31, 2017, May 31, 2016 and May 31, 2015	<u>46</u>
Consolidated Statements of Comprehensive Income for each of the three years ended May 31, 2017, May 31, 2016 and May 31, 2015	<u>47</u>
Consolidated Balance Sheets at May 31, 2017 and May 31, 2016	<u>48</u>
Consolidated Statements of Cash Flows for each of the three years ended May 31, 2017, May 31, 2016 and May 31, 2015	<u>49</u>
Consolidated Statements of Shareholders' Equity for each of the three years ended May 31, 2017, May 31, 2016 and May 31, 2015	<u>50</u>
Notes to Consolidated Financial Statements	<u>51</u>
2. Financial Statement Schedule:	
II — Valuation and Qualifying Accounts	<u>79</u>
All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.	
3. Exhibits:	
3.1 Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2015).	
3.2 Fourth Restated Bylaws, as amended (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed April 24, 2017).	
4.1 Restated Articles of Incorporation, as amended (see Exhibit 3.1).	
4.2 Fourth Restated Bylaws, as amended (see Exhibit 3.2).	
4.3 Indenture dated as of April 26, 2013, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed April 26, 2013). Second Supplemental Indenture, dated as of October 29, 2015, by and between NIKE, Inc. and Deutsche Bank	
4.4 Trust Company Americas, as trustee, including the form of 3.875% Notes due 2045 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 29, 2015).	
4.5 Third Supplemental Indenture, dated as of October 21, 2016, by and between NIKE, Inc. and Deutsche Bank Trust Company Americas, as trustee, including the form of 2.375% Notes due 2026 and form of 3.375% Notes due 2046 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed October 21, 2016).	

10.1 Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 21, 2005).*

10.2 Form of Non-Statutory Stock Option Agreement for options granted to non-employee directors after May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2010).*

10.3 Form of Non-Statutory Stock Option Agreement for options granted to executives prior to May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*

10.4 Form of Restricted Stock Agreement for non-employee directors under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*

10.5 Form of Non-Statutory Stock Option Agreement for options granted to executives after May 31, 2010 under the 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*

10.6 Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*

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10.7	NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014).*
10.8	NIKE, Inc. Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2012).*
10.9	NIKE, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.10	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective April 1, 2013) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2013).*
10.11	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective June 1, 2004) (applicable to amounts deferred before January 1, 2005) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004).*
10.12	Amendment No. 1 effective January 1, 2008 to the NIKE, Inc. Deferred Compensation Plan (June 1, 2004 Restatement) (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2009).*
10.13	NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008).*
10.14	Amended and Restated Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated July 24, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2008).*
10.15	Form of Restricted Stock Agreement under the Stock Incentive Plan for awards after May 31, 2010 (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.16	Form of Restricted Stock Unit Agreement under the Stock Incentive Plan (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015).*
10.17	Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Andrew Campion dated July 17, 2015 (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2016).*
10.18	Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Eric D. Sprunk dated April 18, 2001 (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2010).*
10.19	Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Trevor A. Edwards dated November 14, 2002 (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.20	Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Michael Spillane dated April 26, 2015.*
10.21	Policy for Recoupment of Incentive Compensation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 20, 2010).*
10.22	Credit Agreement dated as of August 28, 2015 among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citibank N.A., as Syndication Agent, Deutsche Bank A.G. New York Branch and HSBC Bank USA, National Association, as Co-Documentation Agents, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 2, 2015).
10.23	Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 23, 2015).*
10.24	Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 23, 2015).*
12.1	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.

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- 23 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (included within this Annual Report on Form 10-K).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32 Section 1350 Certifications.
- 101.INS XBRL Instance Document
- 101.SCHXBRL Taxonomy Extension Schema
- 101.CALXBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Document
- 101.LABXBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase
- * Management contract or compensatory plan or arrangement.

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

Upon written request to Investor Relations, NIKE, Inc., One Bowerman Drive, Beaverton, Oregon 97005-6453, NIKE will furnish shareholders with a copy of any Exhibit upon payment of \$0.10 per page, which represents our reasonable expenses in furnishing Exhibits.

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ITEM 16. Form 10-K Summary

None.

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SCHEDULE II — Valuation and Qualifying Accounts

(In millions)	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts ⁽¹⁾	Write-Offs, Net	Balance at End of Period
Sales returns reserve					
For the year ended May 31, 2015	\$ 308	\$ 726	\$ (35)	\$ (620)	\$ 379
For the year ended May 31, 2016	379	788	(15)	(708)	444
For the year ended May 31, 2017	444	696	3	(800)	343
Allowance for doubtful accounts ⁽²⁾					
For the year ended May 31, 2015	\$ 78	\$ 35	\$ (15)	\$ (20)	\$ 78
For the year ended May 31, 2016	78	52	(2)	(85)	43
For the year ended May 31, 2017	43	16	—	(40)	19

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

(2) Includes both current and non-current portions of the allowance for doubtful accounts. The non-current portion is included in Deferred income taxes and other assets on the Consolidated Balance Sheets.

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Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-212617) and Form S-8 (Nos. 033-63995, 333-63581, 333-63583, 333-68864, 333-68886, 333-71660, 333-104822, 333-117059, 333-133360, 333-164248, 333-171647, 333-173727, 333-208900 and 333-215439) of NIKE, Inc. of our report dated July 20, 2017 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Portland, Oregon

July 20, 2017

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NIKE, INC.

By: /s/ MARK G. PARKER

Mark G. Parker

Chairman, President and Chief Executive Officer

Date: July 20, 2017

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

Signature	Title	Date
PRINCIPAL EXECUTIVE OFFICER AND DIRECTOR: /s/ MARK G. PARKER Mark G. Parker	Chairman, President and Chief Executive Officer	July 20, 2017
PRINCIPAL FINANCIAL OFFICER: /s/ ANDREW CAMPION Andrew Campion	Chief Financial Officer	July 20, 2017
PRINCIPAL ACCOUNTING OFFICER: /s/ CHRIS L. ABSTON Chris L. Abston	Corporate Controller	July 20, 2017
DIRECTORS: /s/ ELIZABETH J. COMSTOCK Elizabeth J. Comstock	Director	July 20, 2017
/s/ JOHN G. CONNORS John G. Connors	Director	July 20, 2017
/s/ TIMOTHY D. COOK Timothy D. Cook	Director	July 20, 2017
/s/ JOHN J. DONAHOE II John J. Donahoe II	Director	July 20, 2017
/s/ ALAN B. GRAF, JR. Alan B. Graf, Jr.	Director	July 20, 2017
/s/ TRAVIS A. KNIGHT Travis A. Knight	Director	July 20, 2017
/s/ JOHN C. LECHLEITER John C. Lechleiter	Director	July 20, 2017
/s/ MICHELLE A. PELUSO Michelle A. Peluso	Director	July 20, 2017
/s/ JOHNATHAN A. RODGERS Johnathan A. Rodgers	Director	July 20, 2017
/s/ JOHN R. THOMPSON, JR. John R. Thompson, Jr.	Director	July 20, 2017
/s/ PHYLLIS M. WISE Phyllis M. Wise	Director	July 20, 2017

