

Edgar Filing: NIKE INC - Form 10-Q

NIKE INC
Form 10-Q
April 04, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

FOR QUARTERLY REPORTS UNDER SECTION 13 OR 15(d) OF
THE SECURITIES AND EXCHANGE ACT OF 1934

For the Quarter Ended February 29, 2008
Commission file number - 1-10635

NIKE, Inc.

(Exact name of registrant as specified in its charter)

OREGON

93-0584541

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

One Bowerman Drive, Beaverton, Oregon

97005-6453

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange
Act of 1934 during the preceding 12 months (or for such shorter period
that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

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.

Large accelerated filer Accelerated filer

Non-accelerated filer 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

Edgar Filing: NIKE INC - Form 10-Q

Common Stock shares outstanding as of February 29, 2008 were:

Class A	105,006,644
Class B	387,703,487
	<u>492,710,131</u>
	=====

PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	February 29, 2008	May 31, 2007
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$2,242.4	\$1,856.7
Short-term investments	684.2	990.3
Accounts receivable, net	2,775.5	2,494.7
Inventories (Note 2)	2,390.9	2,121.9
Deferred income taxes	245.0	219.7
Prepaid expenses and other current assets	566.7	393.2
	8,904.7	8,076.5
Property, plant and equipment	4,009.7	3,619.1
Less accumulated depreciation	2,189.7	1,940.8
	1,820.0	1,678.3
Property, plant and equipment, net	1,820.0	1,678.3
Identifiable intangible assets, net (Note 3)	384.4	409.9
Goodwill (Note 3)	130.8	130.8
Deferred income taxes and other assets	548.3	392.8
	\$11,788.2	\$10,688.3
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 6.3	\$ 30.5
Notes payable	205.6	100.8
Accounts payable	1,004.7	1,040.3
Accrued liabilities (Note 4)	1,630.2	1,303.4
Income taxes payable	96.4	109.0

Edgar Filing: NIKE INC - Form 10-Q

Total current liabilities	2,943.2	2,584.0
Long-term debt	446.7	409.9
Deferred income taxes and other liabilities	784.8	668.7
Commitments and contingencies (Note 10)	--	--
Redeemable preferred stock	0.3	0.3
Shareholders' equity:		
Common stock at stated value:		
Class A convertible-105.0 and 117.6 million shares outstanding	0.1	0.1
Class B-387.7 and 384.1 million shares outstanding	2.7	2.7
Capital in excess of stated value	2,350.7	1,960.0
Accumulated other comprehensive income (Note 6)	277.0	177.4
Retained earnings	4,982.7	4,885.2
Total shareholders' equity	7,613.2	7,025.4
Total liabilities and shareholders' equity	\$11,788.2 =====	\$10,688.3 =====

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2008	2007	2008	2007
	-----	-----	-----	-----
	(in millions, except per share data)			
Revenues	\$4,544.4	\$3,926.9	\$13,539.0	\$11,942.7
Cost of sales	2,496.5	2,191.7	7,483.0	6,701.2
	-----	-----	-----	-----
Gross margin	2,047.9	1,735.2	6,056.0	5,241.5
Selling and administrative expense	1,403.2	1,243.3	4,267.4	3,756.7
Interest income, net	18.7	15.8	66.4	43.0
Other income (expense), net	5.3	10.3	(0.4)	13.3
	-----	-----	-----	-----
Income before income taxes	668.7	518.0	1,854.6	1,541.1
Income taxes (Note 5)	204.9	167.2	461.7	487.5
	-----	-----	-----	-----
Net income	\$ 463.8 =====	\$ 350.8 =====	\$1,392.9 =====	\$1,053.6 =====
Basic earnings per common share (Note 8)	\$ 0.94	\$ 0.69	\$ 2.80	\$ 2.09

Edgar Filing: NIKE INC - Form 10-Q

	=====	=====	=====	=====
Diluted earnings per common share (Note 8)	\$ 0.92	\$ 0.68	\$ 2.76	\$ 2.07
	=====	=====	=====	=====
Dividends declared per common share	\$ 0.23	\$ 0.185	\$ 0.645	\$ 0.525
	=====	=====	=====	=====

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended February 29 and 28,	
	2008	2007
	-----	-----
	(in millions)	
Cash provided (used) by operations:		
Net income	\$1,392.9	\$1,053.6
Income charges (credits) not affecting cash:		
Depreciation	224.0	199.2
Deferred income taxes	(104.1)	61.1
Stock-based compensation (Note 7)	115.6	119.1
Gain on divestiture (Note 11)	(28.6)	--
Amortization and other	24.9	(10.0)
Changes in certain working capital components and other assets and liabilities:		
Increase in accounts receivable	(133.8)	(102.7)
Increase in inventories	(183.9)	(108.8)
Increase in prepaid expenses and other assets	(30.1)	(139.6)
Increase (decrease) in accounts payable, accrued liabilities and income taxes payable	26.9	(157.1)
	-----	-----
Cash provided by operations	1,303.8	914.8
	-----	-----
Cash provided (used) by investing activities:		
Purchases of investments	(1,248.8)	(1,193.7)
Maturities of investments	1,575.0	2,170.2
Additions to property, plant and equipment	(292.3)	(217.1)
Proceeds from the sale of property, plant and equipment	0.8	27.8
Increase in other assets and liabilities, net	(10.1)	(9.2)
Acquisition of shares of Umbro Plc (Note 11)	(112.0)	--
Proceeds from divestiture (Note 11)	60.0	--
	-----	-----
Cash (used) provided by investing activities	(27.4)	778.0

Edgar Filing: NIKE INC - Form 10-Q

Cash provided (used) by financing activities:		
Proceeds from issuance of long-term debt	--	41.8
Reductions in long-term debt, including current portion	(29.5)	(254.2)
Increase in notes payable	90.6	49.0
Proceeds from exercise of stock options and other stock issuances	246.3	275.2
Excess tax benefits from share-based payment arrangements	37.0	48.3
Repurchase of common stock	(951.5)	(704.6)
Dividends on common stock	(299.5)	(250.2)
Cash used by financing activities	(906.6)	(794.7)
Effect of exchange rate changes on cash	15.9	26.9
Net increase in cash and equivalents	385.7	925.0
Cash and equivalents, beginning of period	1,856.7	954.2
Cash and equivalents, end of period	\$2,242.4	\$1,879.2
	=====	=====

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

NIKE, Inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end condensed consolidated balance sheet data as of May 31, 2007 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the nine months ended February 29, 2008 are not necessarily indicative of results to be expected for the entire year.

Recently Adopted Accounting Standards:

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

Edgar Filing: NIKE INC - Form 10-Q

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

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

Recently Issued Accounting Standards:

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 for financial assets and liabilities are effective for the fiscal year beginning June 1, 2008 and the provisions of FAS 157 for non financial assets and liabilities are effective for the fiscal year beginning June 1, 2009. The Company is currently evaluating the impact of the provisions for non financial assets and liabilities. The Company has evaluated the provisions of FAS 157 for financial assets and liabilities and does not expect that the adoption will have a material impact on the Company's consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of FAS 159 are effective for the fiscal year beginning June 1, 2008. The Company has evaluated the impact of the provisions of FAS 159 and does not expect that the adoption will have a material impact on the Company's consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141(R)") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("FAS 160"). These standards aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of FAS 141(R) and FAS 160 are effective for the fiscal year beginning June 1, 2009. The Company is currently evaluating the impact of the provisions of FAS 141(R) and FAS 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of FAS 161 are effective for the quarter ending February 28, 2009. The Company is currently evaluating the impact of the provisions of FAS 161.

NOTE 2 - Inventories:

Inventory balances of \$2,390.9 million and \$2,121.9 million at February 29, 2008 and May 31, 2007, respectively, were substantially all finished goods.

Edgar Filing: NIKE INC - Form 10-Q

NOTE 3 - Identifiable Intangible Assets and Goodwill:

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of February 29, 2008 and May 31, 2007:

	February 29, 2008			May 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Amortized intangible assets:						
Patents	\$ 48.9	\$ (14.9)	\$ 34.0	\$ 44.1	\$ (12.3)	\$ 31.8
Trademarks	14.1	(8.3)	5.8	49.8	(17.5)	32.3
Other	21.7	(18.6)	3.1	21.6	(17.3)	4.3
Total	\$ 84.7	\$ (41.8)	\$ 42.9	\$ 115.5	\$ (47.1)	\$ 68.4
Unamortized intangible assets - Trademarks			\$ 341.5			\$ 341.5
Identifiable intangible assets, net			\$ 384.4			\$ 409.9
Goodwill			\$ 130.8			\$ 130.8

Amortization expense, which is included in selling and administrative expense, was \$1.8 million and \$2.5 million for the three-month periods ended February 29, 2008 and February 28, 2007, respectively, and \$6.8 million and \$7.4 million for the nine-month periods ended February 29, 2008 and February 28, 2007, respectively. The estimated amortization expense for intangible assets subject to amortization for each of the years ending May 31, 2008 through May 31, 2012 are as follows: 2008: \$8.3 million; 2009: \$6.0 million; 2010: \$5.6 million; 2011: \$5.1 million; 2012: \$4.4 million.

NOTE 4 - Accrued Liabilities:

Accrued liabilities include the following:

	February 29, 2008	May 31, 2007
	(in millions)	
Compensation and benefits, excluding taxes	\$443.0	\$451.6
Fair value of derivatives	242.0	90.5

Edgar Filing: NIKE INC - Form 10-Q

Taxes other than income taxes	177.2	133.4
Endorser compensation	163.5	139.9
Dividends payable	113.3	92.9
Advertising and marketing	110.1	70.6
Import and logistics costs	76.4	81.4
Other ¹	304.7	243.1
	\$1,630.2	\$1,303.4
	=====	=====

1 Other consists of various accrued expenses and no individual item accounted for more than \$50 million of the balance at February 29, 2008 and May 31, 2007.

NOTE 5 ? Income Taxes:

The effective tax rate for the nine months ended February 29, 2008 was 24.9%.? Over the last few years, several international entities generated losses for which the Company did not recognize offsetting tax benefits because the realization of those benefits was uncertain.? The necessary steps to realize these benefits have now been taken resulting in a one-time reduction of the effective tax rate for the nine months ended February 29, 2008 of 5.7 percentage points.? Also reflected in the effective tax rate for the nine months ended February 29, 2008 is a reduction in our on-going effective tax rate resulting from our operations outside of the United States; our tax rates on these operations are generally lower than the U.S. statutory rate.

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

At the adoption date of June 1, 2007, the Company had \$122.5 million of gross unrecognized tax benefits, excluding related interest and penalties, \$35.0 million of which would affect the Company's effective tax rate if recognized in future periods. Including related interest and penalties and net of federal benefit of interest and unrecognized state tax benefits, at June 1, 2007, the Company had \$135.0 million of total unrecognized tax benefits, \$52.0 million of which would affect the Company's effective tax rate if recognized in future periods. During the nine months ended February 29, 2008, the gross unrecognized tax benefits increased \$61.6 million, primarily related to tax positions taken during the current and prior fiscal years.? As of February 29, 2008 the gross unrecognized tax benefits were \$184.1 million. The Company does not anticipate that total unrecognized tax benefits will change significantly within the next 12 months.

The Company is subject to taxation primarily in the United States, China and the Netherlands as well as various state and other foreign jurisdictions. The Company has concluded substantially all U.S. federal income tax matters through fiscal year 2004. The Company is currently under audit by the Internal Revenue Service for the 2005 and 2006 tax years. The Company's major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar year 1996 and fiscal year 2001,

Edgar Filing: NIKE INC - Form 10-Q

respectively.

The Company recognizes interest and penalties related to income tax matters in income tax expense. Upon adoption at June 1, 2007, the Company had \$32.0 million (excluding federal benefit) accrued for interest and penalties related to uncertain tax positions. The liability for payment of interest and penalties increased \$22.9 million during the nine months ended February 29, 2008. As of February 29, 2008, accrued interest and penalties related to uncertain tax positions was \$54.9 million (excluding federal benefit).

NOTE 6 - Comprehensive Income:

Comprehensive income, net of taxes, is as follows:

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2008	2007	2008	2007
	(in millions)			
Net income	\$463.8	\$350.8	\$1,392.9	\$1,053.6
Other comprehensive income:				
Change in cumulative translation adjustment and other	26.9	3.0	164.6	42.0
Changes due to cash flow hedging instruments:				
Net gain (loss) on hedge derivatives	3.3	(8.1)	(110.4)	(27.1)
Reclassification to net income of previously deferred losses related to hedge derivative instruments	17.8	8.5	45.4	9.5
Other comprehensive income	48.0	3.4	99.6	24.4
Total comprehensive income	\$511.8	\$354.2	\$1,492.5	\$1,078.0

NOTE 7 - Stock-Based Compensation

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

Edgar Filing: NIKE INC - Form 10-Q

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

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

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2008	2007	2008	2007
	(in millions)			
Stock options ¹	\$21.8	\$24.5	\$105.0	\$109.9
ESPPs	1.8	1.5	5.6	5.0
Restricted stock	1.7	1.4	5.0	4.2
	\$25.3	\$27.4	\$115.6	\$119.1
	=====	=====	=====	=====

1 In accordance with FAS 123R, accelerated stock option expense is recorded for employees eligible for accelerated stock option vesting upon retirement. Accelerated stock option expense was \$0.7 million and \$0.4 million for the three months ended February 29, 2008 and February 28, 2007, respectively, and \$39.9 million and \$35.9 million for the nine months ended February 29, 2008 and February 28, 2007, respectively. Because the Company usually grants the majority of stock options in a single grant in the first three months of each fiscal year, under FAS 123R, accelerated vesting will normally result in higher expense in the first three months of the fiscal year.

As of February 29, 2008, the Company had \$112.4 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized as selling and administrative expense over a weighted average period of 2.1 years.

The weighted average fair value per share of the options granted during the nine months ended February 29, 2008 and February 28, 2007 as computed using the Black-Scholes pricing model was \$13.86 and \$8.79, respectively. The weighted average assumptions used to estimate these fair values are as follows:

Nine Months Ended February 29 and 28,	
2008	2007

Edgar Filing: NIKE INC - Form 10-Q

Dividend yield	1.4%	1.6%
Expected volatility	20.5%	18.7%
Weighted-average expected life (in years)	5.0	5.0
Risk-free interest rate	4.8%	5.0%

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

NOTE 8 - Earnings Per Common Share:

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase an additional 6.8 million and 9.2 million shares of common stock were outstanding for the three months ended February 29, 2008 and February 28, 2007, respectively, and 6.8 million and 10.2 million shares of common stock were outstanding for the nine months ended February 29, 2008 and February 28, 2007, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive.

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2008	2007	2008	2007
	(in millions, except per share data)			
Determination of shares:				
Weighted average common shares outstanding	493.9	504.5	497.0	504.1
Assumed conversion of dilutive stock options and awards	8.6	6.3	8.4	5.5
Diluted weighted average common shares outstanding	502.5	510.8	505.4	509.6
Basic earnings per common share ¹	\$ 0.94	\$ 0.69	\$ 2.80	\$ 2.09
Diluted earnings per common share ¹	\$ 0.92	\$ 0.68	\$ 2.76	\$ 2.07

¹ Basic and diluted earnings per common share for the three months ended February 28, 2007 do not recalculate due to rounding.

Edgar Filing: NIKE INC - Form 10-Q

NOTE 9 - Operating Segments:

The Company's operating segments are evidence of the structure of the Company's internal organization. The major segments are defined by geographic regions for operations participating in NIKE brand sales activity excluding NIKE Golf and NIKE Bauer Hockey. Each NIKE brand geographic segment operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment. The "Other" category shown below represents activities of Cole Haan Holdings Incorporated, Converse Inc., Exeter Brands Group LLC (whose primary business was the Starter Brand business which was sold on December 17, 2007), Hurley International LLC, NIKE Bauer Hockey Inc., and NIKE Golf, which are considered immaterial for individual disclosure based on the aggregation criteria in SFAS No. 131 ?Disclosures about Segments of an Enterprise and Related Information.?

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

Net revenues as shown below represent sales to external customers for each segment. Intercompany revenues have been eliminated and are immaterial for separate disclosure. The Company evaluates performance of individual operating segments based on pre-tax income. On a consolidated basis, this amount represents income before income taxes as shown in the Unaudited Condensed Consolidated Statements of Income. Reconciling items for pre-tax income represent corporate costs that are not allocated to the operating segments for management reporting including corporate activity, stock-based compensation expense, certain currency exchange rate gains and losses on transactions, the gain on the sale of the Starter brand business, which was sold in December 2007, and intercompany eliminations for specific income statement items in the Unaudited Condensed Consolidated Statements of Income.

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

	Three Months Ended February 29 and 28,		Nine Months Ended February 29 and 28,	
	2008	2007	2008	2007
	(in millions)			
Net Revenue				
U.S.	\$1,556.5	\$1,477.0	\$ 4,708.3	\$ 4,496.9
EUROPE, MIDDLE EAST, AFRICA	1,384.3	1,124.8	4,086.2	3,431.9
ASIA PACIFIC	748.3	589.9	2,053.7	1,686.5
AMERICAS	254.4	212.5	847.5	717.5
OTHER	600.9	522.7	1,843.3	1,609.9
	<u>\$4,544.4</u>	<u>\$3,926.9</u>	<u>\$13,539.0</u>	<u>\$11,942.7</u>
	=====	=====	=====	=====

Edgar Filing: NIKE INC - Form 10-Q

Pre-tax Income				
U.S.	\$ 347.3	\$ 296.4	\$ 1,001.2	\$ 934.2
EUROPE, MIDDLE EAST, AFRICA	334.3	255.7	940.0	734.0
ASIA PACIFIC	193.0	132.1	526.6	382.8
AMERICAS	51.9	42.1	178.5	152.9
OTHER	77.5	67.0	243.5	208.5
CORPORATE	(335.3)	(275.3)	(1,035.2)	(871.3)
	<u>\$ 668.7</u>	<u>\$ 518.0</u>	<u>\$ 1,854.6</u>	<u>\$1,541.1</u>
	=====	=====	=====	=====
	Feb. 29, 2008	May 31, 2007		
	<u> </u>	<u> </u>		

(in millions)

Accounts receivable, net		
U.S.	\$ 857.6	\$ 806.8
EUROPE, MIDDLE EAST, AFRICA	852.8	739.1
ASIA PACIFIC	379.0	296.6
AMERICAS	223.3	184.1
OTHER	412.9	404.9
CORPORATE	49.9	63.2
	<u>\$2,775.5</u>	<u>\$2,494.7</u>
	=====	=====

Inventories		
U.S.	\$ 800.7	\$ 796.0
EUROPE, MIDDLE EAST, AFRICA	632.3	554.5
ASIA PACIFIC	297.1	214.1
AMERICAS	160.7	132.0
OTHER	455.0	378.7
CORPORATE	45.1	46.6
	<u>\$2,390.9</u>	<u>\$2,121.9</u>
	=====	=====

Property, plant and equipment, net		
U.S.	\$ 302.4	\$ 232.7
EUROPE, MIDDLE EAST, AFRICA	351.6	325.4
ASIA PACIFIC	368.7	326.1
AMERICAS	19.7	16.9
OTHER	114.6	103.6
CORPORATE	663.0	673.6
	<u>\$1,820.0</u>	<u>\$1,678.3</u>
	=====	=====

NOTE 10 - Commitments and Contingencies:

At February 29, 2008, the Company had letters of credit outstanding totaling \$194.9 million. These letters of credit were issued primarily for the purchase of inventory.

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

Edgar Filing: NIKE INC - Form 10-Q

NOTE 11 ? Acquisitions, Divestitures and Subsequent Events:

On October 23, 2007, the Company entered into an Implementation Agreement with Umbro Plc, a United Kingdom company, pursuant to which the Company agreed to acquire all of the outstanding shares of Umbro Plc for 1.9306 British pounds sterling per share in cash (the "Umbro Acquisition").

On December 21, 2007, the Company purchased 19.9% of the outstanding shares of Umbro Plc from Sports Direct International Plc ("Sports Direct") in a privately negotiated transaction. The Company paid Sports Direct 1.9306 British pounds sterling for each of the 29.1 million shares, for a total purchase price of 56.4 million pounds sterling (approximately \$112.0 million), inclusive of transaction fees.

In March 2008 the Company completed the Umbro Acquisition by purchasing all remaining outstanding shares of Umbro Plc for 1.9306 British pounds sterling each, for a total of 226.8 million pounds sterling (approximately \$449.5 million), inclusive of transaction fees.

On December 17, 2007, the Company completed the sale of the Starter brand business to Iconix Brand Group, Inc. for \$60 million in cash. This transaction resulted in a gain of \$28.6 million, which is reflected in Other income (expense), net and in the corporate line in the segment presentation of pre-tax income in Note 9.

On February 21, 2008, the Company entered into a definitive agreement to sell NIKE Bauer Hockey Corp. for \$200 million in cash. The transaction is expected to be completed before the end of the fiscal year ending May 31, 2008.

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

Overview

In the third quarter of fiscal 2008, our revenues grew 16% to \$4.5 billion, net income grew 32% to \$463.8 million and we delivered diluted earnings per share of \$0.92, a 35% increase versus the third quarter of fiscal 2007.

Income before income taxes grew 29% for the third quarter, driven by revenue growth, a higher gross margin percentage, and selling and administrative expense leverage primarily due to the timing of our demand creation spend. Net income and diluted earnings per share grew at a faster rate than pretax income due to a year-over-year decrease in our effective tax rate and a reduction in outstanding shares due to repurchases made under our share repurchase program.

As part of our long term growth strategy, we continually evaluate our existing portfolio of businesses as well as new business opportunities to ensure the Company is investing in those businesses with the largest growth potential and highest returns. In December 2008 we completed our sale of the Starter brand business. In March 2008 we completed our acquisition of Umbro Plc., a leading United Kingdom-based global soccer brand. In addition, during the third quarter we entered into a definitive agreement to sell NIKE Bauer Hockey; we expect this transaction will be completed in the fourth quarter of fiscal 2008.

Edgar Filing: NIKE INC - Form 10-Q

Results of Operations

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
(dollars in millions, except per share data)						
Revenues	\$4,544.4	\$3,926.9	16%	\$13,539.0	\$11,942.7	13%
Cost of sales	2,496.5	2,191.7	14%	7,483.0	6,701.2	12%
Gross margin	2,047.9	1,735.2	18%	6,056.0	5,241.5	16%
Gross margin %	45.1%	44.2%		44.7%	43.9%	
Selling and administrative	1,403.2	1,243.3	13%	4,267.4	3,756.7	14%
% of revenue	30.9%	31.7%		31.5%	31.5%	
Income before income taxes	668.7	518.0	29%	1,854.6	1,541.1	20%
Net income	463.8	350.8	32%	1,392.9	1,053.6	32%
Diluted earnings per share	0.92	0.68	35%	2.76	2.07	33%

Consolidated Operating Results

Revenues

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
(dollars in millions)						
Revenues	\$4,544.4	\$3,926.9	16%	\$13,539.0	\$11,942.7	13%

On a consolidated basis, changes in foreign currency exchange rates increased revenues by 6 percentage points for the third quarter, and 4 percentage points for the first nine months of fiscal 2008 compared to the same periods in the prior year. Strong demand for NIKE brand products continued to drive revenue growth for the quarter and year-to-date period, as all four of our geographic regions and all three of our product business units continued to deliver revenue growth. Excluding the effects of changes in currency exchange rates, our international regions contributed 6 percentage

Edgar Filing: NIKE INC - Form 10-Q

points to the consolidated revenue growth for both the quarter and year-to-date periods. Our Other businesses, comprised primarily of results from Cole Haan Holdings Incorporated, Converse Inc., Exeter Brands Group LLC (whose primary business was the Starter brand business which was sold on December 17, 2007), Hurley International LLC, NIKE Bauer Hockey Corp., and NIKE Golf contributed 2 percentage points of the consolidated constant-currency revenue growth for both the quarter and year-to-date period. The U.S. Region contributed the balance of revenue growth.

By product group, our worldwide footwear business reported revenue growth of 15% for the third quarter of fiscal 2008 and contributed \$324 million of incremental revenue. Our worldwide apparel and equipment businesses grew 18% and 11%, respectively, and combined added \$215 million of incremental revenue for the quarter. For the first nine months of fiscal 2008, our worldwide footwear business contributed \$864 million of incremental revenue, while our worldwide apparel and equipment businesses together contributed \$499 million of incremental revenue.

Gross Margin

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
Gross margin	\$2,047.9	\$1,735.2	18%	\$6,056.0	\$5,241.5	16%
Gross margin %	45.1%	44.2%	90 bps	44.7%	43.9%	80 bps

For the third quarter and year-to-date period of fiscal 2008, the primary factors contributing to the increase in gross margins versus the prior year periods were higher footwear in-line gross pricing margins, most notably in the U.S. and Asia Pacific regions, and an increase in retail sales as a percentage of total sales, partially offset by lower apparel in-line gross pricing margins, most notably in the U.S. region.

Selling and Administrative Expense

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					

Edgar Filing: NIKE INC - Form 10-Q

Demand creation expense	\$ 508.3	\$ 467.8	9%	\$1,618.6	\$1,449.3	12%
Operating overhead expense	894.9	775.5	15%	2,648.8	2,307.4	15%
<hr style="width: 100%;"/>						
Selling and administrative expense	\$1,403.2	\$1,243.3	13%	\$4,267.4	\$3,756.7	14%
% of revenues	30.9%	31.7%	(80)bps	31.5%	31.5%	-

Changes in foreign currency exchange rates increased selling and administrative expense by 4 percentage points for both the third quarter and the first nine months of fiscal 2008 as compared to the same periods in the prior year.

Excluding changes in exchange rates, operating overhead increased 12% for both the third quarter and year-to-date period versus the prior year periods. This increase was attributable to increased investments in growth drivers such as NIKE-owned retail, emerging markets, non-Nike brand businesses, and normal wage inflation and performance based compensation.

Excluding changes in exchange rates, demand creation expense increased 3% and 7% for the third quarter and year-to-date periods of fiscal 2008, respectively, versus the same periods in the prior year. The increase in demand creation was primarily attributable to higher spending on sports marketing, most notably to support our soccer business, partially offset by a reduction in advertising spending due primarily to the timing of our spending.

For the remainder of the fiscal year we expect selling and administrative expenses to grow faster than revenue as we accelerate demand creation spending, driven by investments around the 2008 Olympics in Beijing, the European Football Championships occurring in June 2008 and the USA training product campaign.

Other Income (Expense), net

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
Other income (expense), net	\$ 5.3	\$ 10.3	(49)%	\$ (0.4)	\$ 13.3	(103)%

Other income (expense), net is comprised substantially of gains and losses associated with the conversion of non-functional currency receivables and payables, the re-measurement of derivative instruments, disposals of fixed assets, as well as other unusual or non-recurring transactions that are outside the normal course of business. Foreign currency hedge gains and losses reported in Other income (expense), net are reflected in the Corporate line in our segment presentation of pre-tax income in the Notes to Unaudited

Edgar Filing: NIKE INC - Form 10-Q

Condensed Consolidated Financial Statements (Note 9 ? Operating Segments).

The foreign currency hedge losses recognized in Other income (expense), net in the third quarter of fiscal 2008 were more than offset by the \$28.6 million gain on the sale of the Starter brand business. Other income (expense), net in the third quarter of fiscal 2007 is primarily comprised of the \$14.7 million gain on the sale of the Oregon footwear distribution center, partially offset by foreign currency hedge losses.

For the third quarter and year-to-date periods of fiscal 2008, we estimate that the combination of foreign currency hedge losses in Other income (expense), net and the favorable translation of foreign currency-denominated profits from international businesses, resulted in a year-over-year increase in consolidated income before income taxes of approximately \$29 million and \$87 million, respectively.

Income Taxes

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	% change	2008	2007	% change
Effective tax rate	30.6%	32.3%	(170) bps	24.9%	31.6%	(670) bps

Over the last few years, several of our international entities generated losses for which we did not recognize the corresponding tax benefits, as the realization of those benefits was uncertain. In the first quarter of fiscal 2008, we took steps necessary to realize these benefits, resulting in a one-time tax benefit. Also reflected in the year-over-year effective tax rate improvement was a reduction in our on-going effective tax rate resulting from our profits earned outside of the United States; our effective tax rates for these operations are generally lower than the U.S. statutory rate. We estimate that our effective tax rate for the fourth quarter of fiscal 2008 will be slightly lower than our rate for the third quarter of fiscal 2008, and our full year fiscal 2008 rate will be approximately 26%.

Futures Orders

Worldwide futures and advance orders for our footwear and apparel, scheduled for delivery from March through July 2008, were 11% higher than such orders reported for the comparable period of fiscal 2007. This futures growth rate is calculated based upon our forecasts of the actual exchange rates under which our revenues will be translated during this period, which approximate current spot rates. The net effect of changes in foreign currency exchange rates contributed approximately 2 percentage points to futures growth versus the same period in the prior year. Excluding this currency impact, unit sales volume increases for both footwear and apparel drove the growth in overall futures and advance orders. The reported futures and advance orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations and discounts

Edgar Filing: NIKE INC - Form 10-Q

can cause differences in the comparisons between futures and advance orders, and actual revenues. Moreover, a significant portion of our revenue is not derived from futures and advance orders, including at-once and closeout sales of NIKE footwear and apparel, wholesale sales of equipment, Cole Haan, Converse, Hurley, NIKE Bauer Hockey, NIKE Golf, Umbro and retail sales across all brands.

Operating Segments

The breakdown of revenues is as follows:

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
U.S. REGION						
FOOTWEAR	\$1,080.0	\$1,027.9	5%	\$3,183.2	\$2,986.4	7%
APPAREL	407.8	371.3	10%	1,297.2	1,278.2	1%
EQUIPMENT	68.7	77.8	(12)%	227.9	232.3	(2)%
TOTAL U.S.	1,556.5	1,477.0	5%	4,708.3	4,496.9	5%
EMEA REGION						
FOOTWEAR	784.8	630.0	25%	2,223.4	1,850.9	20%
APPAREL	499.5	413.2	21%	1,552.4	1,321.2	17%
EQUIPMENT	100.0	81.6	23%	310.4	259.8	19%
TOTAL EMEA	1,384.3	1,124.8	23%	4,086.2	3,431.9	19%
ASIA PACIFIC REGION						
FOOTWEAR	411.3	319.4	29%	1,077.5	862.8	25%
APPAREL	272.6	217.4	25%	802.3	668.9	20%
EQUIPMENT	64.4	53.1	21%	173.9	154.8	12%
TOTAL ASIA PACIFIC	748.3	589.9	27%	2,053.7	1,686.5	22%
AMERICAS REGION						
FOOTWEAR	177.9	152.8	16%	590.6	510.2	16%
APPAREL	55.0	42.3	30%	186.5	149.2	25%
EQUIPMENT	21.5	17.4	24%	70.4	58.1	21%
TOTAL AMERICAS	254.4	212.5	20%	847.5	717.5	18%
	3,943.5	3,404.2	16%	11,695.7	10,332.8	13%
OTHER	600.9	522.7	15%	1,843.3	1,609.9	14%
TOTAL REVENUES	\$4,544.4	\$3,926.9	16%	\$13,539.0	\$11,942.7	13%

Edgar Filing: NIKE INC - Form 10-Q

The breakdown of income before income taxes (?pre-tax income?) is as follows:

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
U.S. Region	\$ 347.3	\$ 296.4	17%	\$1,001.2	\$ 934.2	7%
EMEA Region	334.3	255.7	31%	940.0	734.0	28%
Asia Pacific Region	193.0	132.1	46%	526.6	382.8	38%
Americas Region	51.9	42.1	23%	178.5	152.9	17%
Other	77.5	67.0	16%	243.5	208.5	17%
Corporate	(335.3)	(275.3)	(22)%	(1,035.2)	(871.3)	(19)%
Total pre-tax income	\$ 668.7	\$ 518.0	29%	\$1,854.6	\$1,541.1	20%

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

U.S. Region

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
Revenues						
Footwear	\$1,080.0	\$1,027.9	5%	\$3,183.2	\$2,986.4	7%
Apparel	407.8	371.3	10%	1,297.2	1,278.2	1%
Equipment	68.7	77.8	(12)%	227.9	232.3	(2)%
Total revenues	\$1,556.5	\$1,477.0	5%	\$4,708.3	\$4,496.9	5%

Edgar Filing: NIKE INC - Form 10-Q

Pre-tax income \$ 347.3 \$ 296.4 17% \$1,001.2 \$ 934.2 7%

For the third quarter, the increase in U.S. footwear revenue was the result of relatively flat unit sales and mid-single digit growth in average price per pair, most notably in running, Brand Jordan and sports culture products, partially offset by a reduction in unit sales of lower priced kids products. For the year-to-date period, U.S. footwear revenue growth was attributable to high-single digit growth in unit sales, driven by increased demand for our NIKE brand sports culture and Brand Jordan products.

The growth in U.S. apparel revenues for the third quarter reflected an increase in unit sales, driven by higher closeout unit sales and growth in unit sales of sports performance products, partially offset by lower average selling prices due primarily to the higher mix of closeout sales. For the year-to-date period, the slight increase in U.S. apparel revenue is attributable to higher unit sales, mostly offset by lower average selling prices. The increase in unit sales has primarily been driven by increased demand for NIKE brand sport performance products, partially offset by lower unit sales of sports culture and Brand Jordan products. Average selling prices have decreased primarily as a result of a higher mix of closeout sales.

The increase in pre-tax income for the third quarter and first nine months of fiscal 2008 exceeded revenue growth over the same period primarily as the result of selling and administrative expense leverage and improved footwear gross pricing margins, partially offset by reductions in apparel gross pricing margins. Selling and administrative expenses decreased in the third quarter versus the comparable period in the prior year, and grew at a slower rate than revenue for the first nine months of fiscal 2008, driven by a decrease in demand creation spending, partially offset by an increase in operating overhead. The decrease in demand creation spending was primarily due to the timing of advertising spend. Demand creation spending is expected to accelerate over the remainder of the fiscal year, driven by spending around the USA training product campaign. The increase in operating overhead was attributable to investments in NIKE-owned retail and normal wage inflation.

EMEA Region

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
Revenues						
Footwear	\$ 784.8	\$ 630.0	25%	\$2,223.4	\$1,850.9	20%
Apparel	499.5	413.2	21%	1,552.4	1,321.2	17%
Equipment	100.0	81.6	23%	310.4	259.8	19%
Total revenues	\$1,384.3	\$1,124.8	23%	\$4,086.2	\$3,431.9	19%

Edgar Filing: NIKE INC - Form 10-Q

Pre-tax income	\$ 334.3	\$ 255.7	31%	\$ 940.0	\$ 734.0	28%
----------------	----------	----------	-----	----------	----------	-----

In the EMEA region, changes in currency exchange rates contributed 13 and 10 percentage points of the revenue growth for the third quarter and first nine months of fiscal 2008, respectively. Excluding changes in currency exchange rates, nearly every market within the region increased revenues for the quarter and year-to-date periods. The emerging markets in the region grew over 34% and 27% on a currency neutral basis for the quarter and year-to-date period, respectively, driven by strong results in Russia and South Africa. The UK grew approximately 10% for both the quarter and year-to-date period.

Excluding changes in exchange rates, footwear revenues increased 11 and 10 percentage points during the third quarter and first nine months of fiscal 2008, respectively, compared to the same periods in the prior year as a result of double-digit percentage growth in unit sales, partially offset by a decrease in average selling price per pair. The increase in unit sales for both the third quarter and year-to-date periods was primarily driven by higher demand for our NIKE brand sports culture and soccer products. The decrease in the average selling price per pair resulted from a shift in product mix from higher priced to lower priced models, most notably within our sports culture product lines.

On a currency neutral basis, EMEA apparel revenue increased 8 percentage points during both the third quarter and year-to-date periods, primarily as a result of increased unit sales of NIKE brand apparel combined with a slight increase in average selling prices. The increase in unit sales of NIKE brand apparel was driven primarily by increased demand for sport performance products, most notably soccer.

The increase in pre-tax income in the third quarter and first nine months of fiscal 2008 was primarily driven by higher revenues, improved gross margins, primarily as a result of improved in-line gross pricing margins, stronger European currencies and selling and administrative expense leverage. Demand creation spending is expected to accelerate over the remainder of the fiscal year, driven by spending around the European Football Championships in June 2008.

Asia Pacific Region

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
Revenues						
Footwear	\$ 411.3	\$ 319.4	29%	\$1,077.5	\$ 862.8	25%
Apparel	272.6	217.4	25%	802.3	668.9	20%
Equipment	64.4	53.1	21%	173.9	154.8	12%

Edgar Filing: NIKE INC - Form 10-Q

Total revenues	\$ 748.3	\$ 589.9	27%	\$2,053.7	\$1,686.5	22%
Pre-tax income	\$ 193.0	\$ 132.1	46%	\$ 526.6	\$ 382.8	38%

In the Asia Pacific region, changes in currency exchange rates contributed 7 and 5 percentage points of revenue growth for the third quarter and year-to-date period, respectively. While the majority of countries within the region reported sales increases for both the quarter and year-to-date period, China continues to be the primary driver of growth within the region, as revenues grew 51% for the quarter and 46% for the year-to-date period on a constant currency basis. The revenue growth in China was primarily due to expansion in both the number of stores selling NIKE product and the sales through existing retail doors. Constant currency revenues in Japan increased 4% for the quarter and were flat year-to-date.

Footwear revenue growth for both the quarter and first nine months of fiscal 2008 reflected increased unit sales, most notably in China, partially offset by lower average selling prices driven primarily by a shift in mix from higher priced to lower priced models. The increase in apparel revenue for both the quarter and year-to-date period was primarily driven by increased unit demand in China.

The increase in pre-tax income in the third quarter and first nine months of fiscal 2008 was driven by higher revenues, improved gross margins, favorable foreign currency translation, and selling and administrative expenses that grew at a slower rate than revenue during the comparable periods. The gross margin improvement for the quarter and first nine months of the fiscal year was driven by higher in-line gross pricing margins, most notably in footwear, and improved margins on closeout product. Selling and administrative expenses grew at a slower rate than revenue during both the third quarter and first nine months of fiscal 2008 due primarily to the timing of demand creation spending. Demand creation spending is expected to accelerate over the remainder of the fiscal year, driven by spending around the 2008 Olympics in Beijing.

Americas Region

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
(dollars in millions)						
Revenues						
Footwear	\$ 177.9	\$ 152.8	16%	\$ 590.6	\$ 510.2	16%
Apparel	55.0	42.3	30%	186.5	149.2	25%
Equipment	21.5	17.4	24%	70.4	58.1	21%
Total revenues	\$ 254.4	\$ 212.5	20%	\$ 847.5	\$ 717.5	18%
Pre-tax income	\$ 51.9	\$ 42.1	23%	\$ 178.5	\$ 152.9	17%

Edgar Filing: NIKE INC - Form 10-Q

In the Americas region, changes in currency exchange rates contributed 10 and 6 percentage points of revenue growth for the third quarter and first nine months of fiscal 2008, respectively. Excluding the changes in foreign currency exchange rates, double-digit revenue growth in most markets within the region during the third quarter and year-to-date period, led by Argentina and Mexico, more than offset slight sales declines in Canada.

The increase in pre-tax income for both the third quarter and first nine months of fiscal 2008 versus the comparable prior year periods was primarily attributable to higher revenues and improved gross margins, combined with favorable foreign currency translation. For the year-to-date period, these factors were partially offset by higher selling and administrative expenses, primarily as the result of higher demand creation spending around the Run Americas III campaign and higher spending on sports marketing, most notably in soccer.

Other Businesses

	Three Months Ended February 29 and 28,			Nine Months Ended February 29 and 28,		
	2008	2007	%	2008	2007	%
			change			change
	(dollars in millions)					
Revenues	\$ 600.9	\$ 522.7	15%	\$1,843.3	\$1,609.9	14%
Pre-tax income	77.5	67.0	16%	243.5	208.5	17%

The increase in Other business revenues for the third quarter and first nine months of fiscal 2008 was driven by higher revenues across all businesses, most notably Converse, NIKE Bauer Hockey and NIKE Golf.

During the third quarter and year-to-date period, growth at Converse, NIKE Bauer Hockey and NIKE Golf, combined with margin improvement across most businesses drove the year-over-year increase in pre-tax income. Pre-tax income for the first nine months of fiscal 2007 included a \$14.2 million benefit relating to the settlement of an arbitration ruling involving Converse and a former South American licensee. Fiscal 2008 year-to-date pre-tax income for our Other businesses would have increased approximately 25% versus the comparable prior year period, excluding this favorable settlement.

As part of our long term growth strategy, we continually evaluate our existing portfolio of businesses as well as new business opportunities to ensure the Company is investing in those businesses with the largest growth potential and highest returns. In March, 2008 we completed our acquisition of the remaining outstanding shares of Umbro Plc, a leading United Kingdom-based global soccer brand, in an all-cash deal valued at approximately 283

Edgar Filing: NIKE INC - Form 10-Q

million pounds sterling, inclusive of transaction fees.

Following a strategic review of the Company's existing business portfolio, we concluded that the Starter and NIKE Bauer Hockey businesses did not align with our long-term growth priorities. In December 2007, we completed the sale of the Starter brand business for \$60 million in cash. This transaction resulted in a gain of approximately \$28.6 million, which is reflected in the Corporate line in our segment presentation of pre-tax income in the Notes to Unaudited Condensed Consolidated Financial Statements (Note 9 - Operating Segments). In the third quarter we also entered into a definitive agreement to sell NIKE Bauer Hockey. We expect to complete this sale in the fourth quarter of fiscal 2008.

Liquidity and Capital Resources

Cash Flow Activity

Cash provided by operations was \$1,303.8 million for the first nine months of fiscal 2008, compared to \$914.8 million for the first nine months of fiscal 2007. Our primary source of operating cash flow for the first nine months of 2008 was net income of \$1,392.9 million offset by investments in working capital to support growth in the business. Our investments in working capital increased during the first nine months of fiscal 2008 as compared to the same period in the prior year primarily due to an increase in accounts receivable as a result of higher sales revenue in the third quarter of fiscal 2008 and an increase in inventory receipts to support the continued growth of the business.

Cash used by investing activities was \$27.4 million for the first nine months of fiscal 2008, compared to cash provided by investing activities of \$778.0 million for the first nine months of fiscal 2007. The decrease over fiscal 2007 was primarily due to lower net maturities of short-term investments (maturities net of purchases) as we liquidated less short-term investments for share repurchases during the first nine months of fiscal 2008 compared to fiscal 2007.

Cash used in financing activities was \$906.6 million for the first nine months of fiscal 2008, compared to \$794.7 million used in the first nine months of fiscal 2007. The increase over fiscal 2007 was primarily due to an increase in share repurchases, as discussed below, and dividends paid. This was partially offset by the \$250 million repayment of corporate bonds during the first nine months of fiscal 2007.

In the third quarter of fiscal 2008, we purchased 5.6 million shares of NIKE's Class B common stock for \$343.9 million, bringing total purchases for the first nine months of fiscal 2008 to 16.1 million shares at a cost of \$958.1 million. As of the end of the third quarter of fiscal 2008, we have now repurchased 34.2 million shares for \$1.8 billion under the \$3 billion program approved by our Board of Directors in June 2006. We expect to fund share repurchases from operating cash flow, excess cash, and/or debt. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Dividends declared per share of common stock for the third quarter of fiscal 2008 were \$0.23, compared to \$0.185 in the third quarter of fiscal 2007.

Contractual Obligations

As a result of renewals of and additions to outstanding operating leases and endorsement contracts, the cash payments due under our operating

Edgar Filing: NIKE INC - Form 10-Q

leases and endorsement contracts have changed from what was previously reported in our Annual Report on Form 10-K as of May 31, 2007.

Obligations under operating leases and endorsement contracts as of February 29, 2008 are as follows:

Cash Payments Due During the Fiscal Year Ending May 31,							
Description of Commitment	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
(in millions)							
Operating Leases	\$ 84.6	\$278.4	\$231.5	\$200.5	\$167.0	\$732.6	\$1,694.6
Endorsement Contracts ¹	145.0	629.4	518.9	441.7	403.6	1,233.6	3,372.2

1 The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete and sports team 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 the endorsers with NIKE products for their use. It is not possible to determine how much we will spend on this product on an annual basis, as the contracts do not stipulate a specific amount of cash to be spent on the product, and as a result, such amounts are not included in the table above. 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.

Upon adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48") on June 1, 2007, the total long term liability for uncertain tax positions was \$135.0 million, including interest and penalties and net of the federal benefit of interest and unrecognized state tax benefits. During the nine months ended February 29, 2008, the total long term liability for uncertain tax positions increased \$87.0 million, primarily related to tax positions taken during the current and prior fiscal years, including the accrual of the related interest and penalties. As of February 29, 2008, the total long term liability for uncertain tax positions was \$222.0 million. We are not able to reasonably estimate when, or if cash payments of the long-term liability for uncertain tax positions will occur.

There have been no other significant changes to the contractual

Edgar Filing: NIKE INC - Form 10-Q

obligations reported in our Annual Report on Form 10-K as of May 31, 2007.

Capital Resources

We have a shelf registration statement with the Securities and Exchange Commission for \$1.0 billion. We have a medium term note program under this shelf registration statement that allows us to issue \$500 million in medium term notes. We have \$240.0 million in medium-term notes outstanding at February 29, 2008.

We also have a \$1.0 billion revolving credit facility in place with a group of banks, and we currently have no amounts outstanding under the facility. The facility is scheduled to mature in December 2012.

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

Liquidity is also provided by our \$1.0 billion commercial paper program. In February 2008, we borrowed \$50 million under our commercial paper program at an interest rate of 2.95%. In March 2008, we repaid the \$50 million and subsequently borrowed \$150 million at an interest rate of 2.35%. No amount was outstanding under our commercial paper program at May 31, 2007. We currently have short-term debt ratings of A1 and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

During the third quarter, one of the Company's Japanese subsidiaries entered into a 2 billion yen (approximately \$19 million) short term bank loan to meet general operating needs. The interest rate on the bank loan is based on the Japanese Yen London Interbank Offer Rate (JPY LIBOR) plus a spread, with an all-in rate at inception of 0.9%.

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

Recently Adopted Accounting Standards

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

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

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value

Edgar Filing: NIKE INC - Form 10-Q

measurements. The provisions of FAS 157 for financial assets and liabilities are effective for our fiscal year beginning June 1, 2008 and the provisions of FAS 157 for non financial assets and liabilities are effective for the fiscal year beginning June 1, 2009. We are currently evaluating the impact of the provisions for non financial assets and liabilities. We have evaluated the provisions of FAS 157 for financial assets and liabilities and do not expect that the adoption will have a material impact on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of FAS 159 are effective for the fiscal year beginning June 1, 2008. We have evaluated the provisions of FAS 159 and do not expect that the adoption will have a material impact on our consolidated financial position or results of operations.

In December 2007, FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141(R)") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("FAS 160"). These standards aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of FAS 141(R) and FAS 160 are effective for the fiscal year beginning June 1, 2009. We are currently evaluating the impact of the provisions of FAS 141(R) and FAS 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of FAS 161 are effective for the quarter ending February 28, 2009. We are currently evaluating the impact of the provisions of FAS 161.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

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

Taxes

We account for uncertain tax positions in accordance with FIN 48. On a

Edgar Filing: NIKE INC - Form 10-Q

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

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

We carry out a variety of on-going procedures under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures. Based on the 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 February 29, 2008.

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

Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historical information including estimates, projections, statements relating to NIKE's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, made or incorporated by reference from time to time by NIKE or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "project," "will be," "will continue," "will likely result," or words or phrases of similar meaning. Forward-looking statements involve risks and uncertainties

Edgar Filing: NIKE INC - Form 10-Q

which may cause actual results to differ materially from the forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by NIKE with the Securities and Exchange Commission, including Forms 8-K, 10-Q, and 10-K, and include, among others, the following: international, national and local general economic and market conditions; the size and growth of the overall athletic footwear, apparel, and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic footwear, apparel, and equipment for consumers and endorsers; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products, and sports; seasonal and geographic demand for NIKE products; difficulties in anticipating or forecasting changes in consumer preferences, consumer demand for NIKE products, and the various market factors described above; difficulties in implementing, operating, and maintaining NIKE's increasingly complex information systems and controls, including, without limitation, the systems related to demand and supply planning, and inventory control; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance "futures" orders may not be indicative of future revenues due to the changing mix of futures and at-once orders; the ability of NIKE to sustain, manage or forecast its growth and inventories; the size, timing and mix of purchases of NIKE's products; new product development and introduction; the ability to secure and protect trademarks, patents, and other intellectual property performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas and political and economic instability; changes in government regulations; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

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

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

Part II - Other Information

Item 1. Legal Proceedings

There have been no significant developments with respect to the information previously reported under Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2007.

Edgar Filing: NIKE INC - Form 10-Q

Item 1A. Risk Factors

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents a summary of share repurchases made by NIKE during the quarter ended February 29, 2008.

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	(in thousands)		(in thousands)	(in millions)
December 1 ? 31, 2007	1,717.3	\$ 65.19	1,717.3	\$1,461.1
January 1 ? 31, 2008	2,053.0	\$ 59.20	2,053.0	\$1,339.6
February 1 ? 29, 2008	1,800.0	\$ 61.31	1,800.0	\$1,229.2
Total	5,570.3 =====	\$ 61.73	5,570.3 =====	

Item 6. Exhibits

(a) EXHIBITS:

- 3.1 Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2005).
- 3.2 Third Restated Bylaws, as amended (incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K filed February 16, 2007).
- 4.1 Restated Articles of Incorporation, as amended (see Exhibit 3.1).
- 4.2 Third Restated Bylaws, as amended (see Exhibit 3.2).
- 10.1 First Amendment to the Credit Agreement, dated August 24, 2007, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citicorp USA, Inc., as Syndication Agent, and HSBC Bank USA, N.A., The Bank of Tokyo Mitsubishi UFG, Ltd. and Deutsche Bank Securities Inc., as Co-Documentation Agents, and the other Banks named therein.
- 10.2 Extension and Second Amendment to the Credit Agreement, dated

Edgar Filing: NIKE INC - Form 10-Q

November 1, 2007, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citicorp USA, Inc., as Syndication Agent, and HSBC Bank USA, N.A., The Bank of Tokyo Mitsubishi UFG, Ltd. and Deutsche Bank Securities Inc., as Co-Documentation Agents, and the other Banks named therein.

- 31.1 Rule 13(a)-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13(a)-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certificate of Chief Executive Officer.
- 32.2 Section 1350 Certificate of Chief Financial Officer.

SIGNATURES

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

NIKE, Inc.
an Oregon Corporation

/s/Donald W. Blair

Donald W. Blair
Chief Financial Officer

DATED: April 3, 2008