NIKE INC
Form 10-K
July 21, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED May 31, 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 No. 1-10635
NIKE, Inc.
(Exact name of Registrant as specified in its charter)

OREGON	93-0584541
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
One Bowerman Drive, Beaverton, Oregon	97005-6453
(Address of principal executive offices)	(Zip Code)

(503) 671-6453
(Registrant's Telephone Number, Including Area Code)
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Class B Common Stock	New York Stock Exchange
(Title of Each Class)	(Name of Each Exchange on Which Registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
NONE

Indicate by check mark:	YES	NO
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	þ	¨
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	¨	þ
• 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.	þ	¨
• whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit	þ	¨

and post such files).

- if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
- 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 þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
- whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ þ

As of November 30, 2015, the aggregate market values of the Registrant's Common Stock held by non-affiliates were:

Class A	$4,075,394,149
Class B	89,393,235,582
	$93,468,629,731

As of July 15, 2016, the number of shares of the Registrant's Common Stock outstanding were:

Class A	329,251,752
Class B	1,348,366,883
	1,677,618,635

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on September 22, 2016 are incorporated by reference into Part III of this Report.

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PART I
ITEM 1. Business
General

NIKE, Inc. was incorporated in 1967 under the laws of the State of Oregon. As used in this report, the terms “we,” “us,” “NIKE,” and the “Company” refer to NIKE, Inc. and its predecessors, subsidiaries and affiliates, collectively, unless the context indicates otherwise. Our NIKE e-commerce website is located at www.nike.com. On our NIKE corporate website, located at news.nike.com, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the United States Securities and Exchange Commission (the “SEC”): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended. Our definitive Proxy Statements are also posted on our corporate website. All such filings on our corporate website are available free of charge. Copies of these filings may also be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website (www.sec.gov) that contains current, quarterly and annual reports, proxy and information statements and other information regarding issuers that file electronically. Also available on our corporate website are the charters of the committees of our Board of Directors, as well as our corporate governance guidelines and code of ethics; copies of any of these documents will be provided in print to any shareholder who submits a request in writing to NIKE Investor Relations, One Bowerman Drive, Beaverton, Oregon 97005-6453.
Our principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world. We sell our products to retail accounts, through NIKE-owned retail stores and internet websites (which we refer to collectively as our “Direct to Consumer” or “DTC” operations), and through a mix of independent distributors and licensees throughout the world. Virtually all of our products are manufactured by independent contractors. Nearly all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.
Products

We focus our NIKE Brand product offerings in nine key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Men’s Training, Women’s Training, Action Sports, Sportswear (our sports-inspired lifestyle products) and Golf. Men's Training includes our baseball and American football product offerings. We also market products designed for kids, as well as for other athletic and recreational uses such as cricket, lacrosse, tennis, volleyball, wrestling, walking and outdoor activities.
NIKE’s athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. We place considerable emphasis on innovation and high-quality construction in our products. Sportswear, Running, the Jordan Brand and Football (Soccer) are currently our top-selling footwear categories and we expect them to continue to lead in footwear sales.
We also sell sports apparel covering the above-mentioned categories, which feature the same trademarks and are sold predominantly through the same marketing and distribution channels as athletic footwear. Our sports apparel, similar to our athletic footwear products, is designed primarily for athletic use and exemplifies our commitment to innovation and high-quality construction. Sportswear, Men's Training, Running, Football (Soccer) and Women's Training are currently our top-selling apparel categories, and we expect them to continue to lead in apparel sales. We often market footwear, apparel and accessories in “collections” of similar use or by category. We also market apparel with licensed college and professional team and league logos.
We sell a line of performance equipment and accessories under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, digital devices, bats, gloves, protective equipment, golf clubs and other equipment designed for sports activities. We also sell small amounts of various plastic products to other manufacturers through our wholly-owned subsidiary, NIKE IHM, Inc.

Our Jordan Brand designs, distributes and licenses athletic and casual footwear, apparel and accessories predominantly focused on basketball using the Jumpman trademark. Sales and operating results for the Jordan Brand are reported as a separate category and within the NIKE Brand geographic operating segments, respectively.

One of our wholly-owned subsidiary brands, Hurley, headquartered in Costa Mesa, California, designs and distributes a line of action sports and youth lifestyle apparel and accessories under the Hurley trademark. Sales and operating results for Hurley are included within the NIKE Brand Action Sports category and within the NIKE Brand's North America geographic operating segment, respectively.

Another of our wholly-owned subsidiary brands, Converse, headquartered in Boston, Massachusetts, designs, distributes and licenses casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

In addition to the products we sell to our wholesale customers and directly to consumers through our DTC operations, we have also entered into license agreements that permit unaffiliated parties to manufacture and sell, using NIKE-owned trademarks, certain apparel, digital devices and applications and other equipment designed for sports activities.

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Sales and Marketing

Financial information about geographic and segment operations appears in Note 17 — Operating Segments and Related Information of the accompanying Notes to the Consolidated Financial Statements.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third quarters. However, the mix of product sales may vary considerably as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment, as well as other macroeconomic, operating and logistics-related factors.

Because NIKE is a consumer products company, the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. We must, therefore, respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories and influencing sports and fitness preferences through extensive marketing. Failure to respond in a timely and adequate manner could have a material adverse effect on our sales and profitability. This is a continuing risk. Refer to Item 1A. Risk Factors.

We report our NIKE Brand operations based on our internal geographic organization. Each NIKE Brand geography operates predominantly in one industry: the design, development, marketing and selling of athletic footwear, apparel, equipment, accessories and services. Our reportable operating segments for the NIKE Brand are: North America, Western Europe, Central & Eastern Europe, Greater China, Japan and Emerging Markets. Our NIKE Brand Direct to Consumer operations are managed within each geographic operating segment.

Converse is also a reportable segment and operates in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. Converse Direct to Consumer operations, including e-commerce, are reported within the Converse operating segment results.

United States Market

For fiscal 2016, NIKE Brand and Converse sales in the United States accounted for approximately 47% of total revenues, compared to 46% for both fiscal 2015 and fiscal 2014. We sell our NIKE Brand, Jordan Brand, Hurley and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops and other retail accounts. In the United States, we utilize NIKE sales offices to solicit sales as well as independent sales representatives to sell specialty products for golf and skateboarding. During fiscal 2016, our three largest customers accounted for approximately 25% of sales in the United States.

We make substantial use of our futures ordering program, which allows retailers to order five to six months in advance of delivery with the commitment that their orders will be delivered within a set time period at a fixed price. In fiscal 2016, 84% of our U.S. wholesale footwear shipments were made under the futures program, compared to 87% in fiscal 2015 and 86% in fiscal 2014. In fiscal 2016, 66% of our U.S. wholesale apparel shipments were made under the futures program, compared to 67% in fiscal 2015 and 71% in fiscal 2014.

Our Direct to Consumer operations sell NIKE Brand, Jordan Brand, Hurley and Converse products to consumers through our e-commerce website, www.nike.com. In addition, our Direct to Consumer operations sell through the following number of retail stores in the United States:

U.S. Retail Stores	Number
NIKE Brand factory stores	196
NIKE Brand in-line stores, including employee-only stores	34
Converse stores (including factory stores)	103
Hurley stores (including factory and employee stores)	29
TOTAL	362

In the United States, NIKE has five significant distribution centers located in Memphis, Tennessee, two of which are owned and three are leased. NIKE Brand apparel and equipment products are also shipped from our leased Foothill Ranch, California distribution center. Converse and Hurley products are shipped primarily from leased facilities in Ontario, California. Smaller leased distribution facilities are located in various parts of the United States.

International Markets

For fiscal 2016, non-U.S. NIKE Brand and Converse sales accounted for 53% of total revenues, compared to 54% for both fiscal 2015 and fiscal 2014. We sell our products to retail accounts, through our own Direct to Consumer operations and through a mix of independent distributors, licensees and sales representatives around the world. We sell to thousands of retail accounts and ship products from 42 distribution centers outside of the United States. In many countries and regions, including Canada, Asia, some Latin American countries and Europe, we have a futures ordering program for retailers similar to the United States futures ordering program described above. During fiscal 2016, NIKE's three largest customers outside of the United States accounted for approximately 13% of total non-U.S. sales.

In addition to NIKE and Converse owned e-commerce websites in over 40 countries, our Direct to Consumer business operates the following number of retail stores outside the United States:

Non-U.S. Retail Stores	Number
NIKE Brand factory stores	588
NIKE Brand in-line stores, including employee-only stores	72
Converse stores (including factory stores)	23
TOTAL	683

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International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Malaysia, Mexico, New Zealand, the Netherlands, Norway, Panama, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

Significant Customer

No customer accounted for 10% or more of our worldwide net revenues during fiscal 2016.

Orders

Worldwide futures orders for NIKE Brand athletic footwear and apparel, scheduled for delivery from June through November 2016, were $14.9 billion compared with $13.8 billion for the same period last year. NIKE Brand reported futures include (1) orders from external wholesale customers and (2) internal orders from our DTC in-line stores and e-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 actual currency exchange rates under which our revenues will be translated during this period. Reported futures orders are not necessarily indicative of our expectation of revenues for this period. This is because the mix of orders can shift between futures and at-once orders and the fulfillment of certain of these futures orders may fall outside of the scheduled time period 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. Moreover, a portion of our revenue is not derived from futures orders, including sales of at-once and closeout NIKE Brand footwear and apparel, all sales of NIKE Brand equipment, the difference between retail sales and internal orders from our Direct to Consumer in-line stores and e-commerce operations, and sales from our Converse, Hurley and NIKE Golf businesses.

Product Research, Design and Development

We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receive continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort while reducing waste.

In addition to our own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, we also utilize research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts who consult with us and review designs, materials, concepts for product and manufacturing process improvements and compliance with product safety regulations around the world. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

As we continue to develop new technologies, we are simultaneously focused on the design of innovative products incorporating such technologies throughout our product categories. Using market intelligence and research, our various design teams identify opportunities to leverage new technologies in existing categories responding to consumer preferences. The proliferation of NIKE Air, Lunar, Zoom, Free, Flywire, Dri-Fit, Flyknit, Flyweave and NIKE+ technologies through Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Men's Training, Women's Training and Sportswear, among others, typifies our dedication to designing innovative products.

Manufacturing

We are supplied by approximately 142 footwear factories located in 15 countries. The largest single footwear factory accounted for approximately 7% of total fiscal 2016 NIKE Brand footwear production. Virtually all of our footwear is manufactured outside of the United States by independent contract manufacturers who often operate multiple factories. In fiscal 2016, contract factories in Vietnam, China and Indonesia manufactured approximately 44%, 29% and 21% of total NIKE Brand footwear, respectively. We also have manufacturing agreements with independent factories in Argentina, India, Brazil and Mexico to manufacture footwear for sale primarily within those countries. In fiscal 2016, five footwear contract manufacturers each accounted for greater than 10% of footwear production and in aggregate accounted for approximately 69% of NIKE Brand footwear production.

We are supplied by approximately 394 apparel factories located in 39 countries. The largest single apparel factory accounted for approximately 12% of total fiscal 2016 NIKE Brand apparel production. Virtually all of our apparel is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. In fiscal 2016, contract factories in China, Vietnam and Indonesia produced approximately 26%, 23% and 9% of total NIKE Brand apparel, respectively. In fiscal 2016, one apparel contract manufacturer accounted for more than 10% of apparel production, and the top five contract manufacturers in aggregate accounted for approximately 39% of NIKE Brand apparel production.

The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and canvas, as well as polyurethane films used to make NIKE Air-Sole cushioning components. During fiscal 2016, NIKE IHM, Inc., a wholly-owned subsidiary of NIKE, Inc., with facilities near Beaverton, Oregon and in St. Charles, Missouri, as well as independent contractors in China and Vietnam, were our largest suppliers of the Air-Sole cushioning components used in footwear. The principal materials used in our apparel products are natural and synthetic fabrics and threads (both virgin and recycled); specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow; and plastic and metal hardware. NIKE’s independent contractors and suppliers buy raw materials for the manufacturing of our footwear, apparel and equipment products. Most raw materials are available and purchased by those independent contractors and suppliers in the countries where manufacturing takes place. NIKE's independent contract manufacturers and suppliers have thus far experienced little difficulty in satisfying raw material requirements for the production of our products.

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Since 1972, Sojitz Corporation of America ("Sojitz America"), a large Japanese trading company and the sole owner of our redeemable preferred stock, has performed significant import-export financing services for us. During fiscal 2016, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Uruguay, Brazil, Canada, India, South Africa and Thailand, excluding products produced and sold in the same country. Approximately 6% of NIKE Brand sales occurred in those countries. Any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in those markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability. However, we believe that any such disruption would be short-term in duration due to the ready availability of alternative sources of financing at competitive rates. Our current agreements with Sojitz America expire on May 31, 2018 and contain a provision allowing us to extend the agreements to May 31, 2019.

International Operations and Trade

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as possible increases in import duties, anti-dumping measures, quotas, safeguard measures, trade restrictions, restrictions on the transfer of funds and, in certain parts of the world, political instability and terrorism. We have not, to date, been materially affected by any such risk, but cannot predict the likelihood of such material effects occurring in the future. In recent years, uncertain global and regional economic conditions have affected international trade and caused a rise in protectionist actions around the world. These trends are affecting many global manufacturing and service sectors, and the footwear and apparel industries, as a whole, are not immune. Companies in our industry are facing trade protectionism in many different regions, and in nearly all cases we are working together with industry groups to address trade issues and reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, protectionist measures have resulted in increases in the cost of our products, and additional measures, if implemented, could adversely affect sales and/or profitability for NIKE as well as the imported footwear and apparel industry as a whole.

We monitor protectionist trends and developments throughout the world that may materially impact our industry, and we engage in administrative and judicial processes to mitigate trade restrictions. We are actively monitoring actions that may result in additional anti-dumping measures and could affect our industry. We are also monitoring for and advocating against other impediments that may limit or delay customs clearance for imports of footwear, apparel and equipment. Moreover, with respect to trade restrictions targeting China, which represents an important sourcing country and consumer market for us, we are working with a broad coalition of global businesses and trade associations representing a wide variety of sectors to help ensure that any legislation enacted and implemented (i) addresses legitimate and core concerns, (ii) is consistent with international trade rules, and (iii) reflects and considers China's domestic economy and the important role it has in the global economic community.

Where trade protection measures are implemented, we believe that we have the ability to develop, over a period of time, adequate alternative sources of supply for the products obtained from our present suppliers. If events prevented us from acquiring products from our suppliers in a particular country, our operations could be temporarily disrupted and we could experience an adverse financial impact. However, we believe we could abate any such disruption, and that much of the adverse impact on supply would, therefore, be of a short-term nature, although alternate sources of supply might not be as cost-effective and could have an ongoing adverse impact on profitability.

NIKE advocates for trade liberalization for footwear and apparel in a number of regional and bilateral free trade agreements. The Trans-Pacific Partnership (TPP), if ultimately ratified, has the potential to reduce or eliminate high rates of customs duties for imports into the United States of NIKE products sourced from TPP countries (primarily footwear and apparel from Vietnam and apparel from Malaysia). Similarly, the European Union has concluded a free trade agreement with Vietnam that, if approved, could lead to duty reduction or elimination for footwear and apparel.

Competition

The athletic footwear, apparel and equipment industry is highly competitive on a worldwide basis. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment, including adidas, ASICS, Li Ning, lululemon athletica, Puma, V.F. Corporation and Under

Armour, among others. The intense competition and the rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations.

NIKE is the largest seller of athletic footwear, apparel and equipment in the world. Important aspects of competition in this industry are:

- Product attributes such as quality; performance and reliability; new product innovation and development and consumer price/value.
- Consumer connection and affinity for brands and products, developed through marketing and promotion; social media interaction; customer support and service; identification with prominent and influential athletes, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics.
- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and online.

We believe that we are competitive in all of these areas.

Trademarks and Patents

We utilize trademarks on nearly all of our products and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and the Company and in distinguishing our goods from the goods of others. We consider our NIKE and Swoosh Design trademarks to be among our most valuable assets and we have registered these trademarks in almost 170 jurisdictions worldwide. In addition, we own many other trademarks that we utilize in marketing our products. We own common law rights in the trade dress of several significant shoe designs and elements. For certain trade dress, we have sought and obtained trademark registrations.

We have copyright protection in our design, graphics and other original works. When appropriate, we have sought registrations for this content.

We own patents and have a patent license, facilitating our use of “Air” technologies.

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We also file and maintain many U.S. and foreign utility patents, as well as many U.S. and foreign design patents protecting components, manufacturing techniques, features and industrial design used in various athletic and leisure footwear and apparel, athletic equipment, digital devices and golf products. These patents expire at various times; patents issued for original applications filed this calendar year in the United States may last until 2031 for design patents and until 2036 for utility patents.

We believe our success depends upon our capabilities in areas such as design, research and development, production and marketing rather than exclusively upon our patent and trade secret positions. However, we have followed a policy of filing patent applications for the United States and select foreign countries on inventions, designs and improvements that we deem valuable. We also continue to vigorously protect our trademarks and patents against third-party infringement.

Employees

As of May 31, 2016, we had approximately 70,700 employees worldwide, including retail and part-time employees. Management considers its relationship with employees to be excellent. None of our employees are represented by a union, except for certain employees in the Emerging Markets geography, where local law requires those employees to be represented by a trade union. Also, in some countries outside of the United States, local laws require employee representation by works councils (which may be entitled to information and consultation on certain Company decisions) or by organizations similar to a union. In certain European countries, we are required by local law to enter into and/or comply with industry-wide or national collective bargaining agreements. NIKE has never experienced a material interruption of operations due to labor disagreements.

Executive Officers of the Registrant

The executive officers of NIKE, Inc. as of July 15, 2016 are as follows:

Mark G. Parker, Chairman, President and Chief Executive Officer — Mr. Parker, 60, was appointed President and Chief Executive Officer in January 2006 and named Chairman of the Board in June 2016. He has been employed by NIKE since 1979 with primary responsibilities in product research, design and development, marketing and brand management. Mr. Parker was appointed divisional Vice President in charge of product development in 1987, corporate Vice President in 1989, General Manager in 1993, Vice President of Global Footwear in 1998 and President of the NIKE Brand in 2001.

Chris L. Abston, Vice President and Corporate Controller — Mr. Abston, 53, joined NIKE in 2015 from Wal-Mart Stores, Inc., where he served as Vice President, Global Controls and Governance since February 2015. Prior to that he was Vice President and Controller of Walmart International from February 2013 to January 2015, responsible for the oversight of international accounting and reporting, and Vice President and Assistant Controller of Wal-Mart Stores, Inc. from May 2011 to January 2013. Before joining Wal-Mart, Mr. Abston spent 25 years in public accounting with Ernst & Young LLP, most recently leading its Strategic Growth Markets practice as a Partner in the Dallas office.

David J. Ayre, Executive Vice President, Global Human Resources — Mr. Ayre, 56, joined NIKE as Vice President, Global Human Resources in 2007. Prior to joining NIKE, he held a number of senior human resource positions with PepsiCo, Inc. since 1990, most recently as head of Talent and Performance Rewards.

Andrew Campion, Executive Vice President and Chief Financial Officer — Mr. Campion, 44, joined NIKE in 2007 as Vice President of Global Planning and Development, leading strategic and financial planning. He was appointed Chief Financial Officer of the NIKE Brand in 2010, responsible for leading all aspects of financial management for the Company's flagship brand. In 2014, he was appointed Senior Vice President, Strategy, Finance and Investor Relations in addition to his role as Chief Financial Officer of NIKE Brand. Mr. Campion assumed the role of Executive Vice President and Chief Financial Officer in August 2015. Prior to joining NIKE, he held leadership roles in strategic planning, mergers and acquisitions, financial planning and analysis, operations and planning, investor relations and tax at The Walt Disney Company from 1996 to 2007.

Trevor A. Edwards, President, NIKE Brand — Mr. Edwards, 53, joined NIKE in 1992. He was appointed Marketing Manager, Strategic Accounts for Foot Locker in 1993, Director of Marketing for the Americas in 1995, Director of Marketing for Europe in 1997, Vice President, Marketing for Europe, Middle East and Africa in 1999 and Vice President, U.S. Brand Marketing in 2000. Mr. Edwards was appointed corporate Vice President, Global Brand Management in 2002, Vice President, Global Brand and Category Management in 2006 and President, NIKE Brand in

2013. Prior to NIKE, Mr. Edwards was with the Colgate-Palmolive Company.

Jeanne P. Jackson, President & Strategic Advisor — Ms. Jackson, 64, joined NIKE in 2009. She was appointed President & Strategic Advisor in June 2016. She was appointed President, Product and Merchandising in 2013 and President, Direct to Consumer in 2009. Ms. Jackson also served as a member of the NIKE, Inc. Board of Directors from 2001 through 2009. She founded and served as Chief Executive Officer of MSP Capital, a private investment company, from 2002 to 2009. Ms. Jackson was Chief Executive Officer of Walmart.com from March 2000 to January 2002. She was with Gap, Inc., as President and Chief Executive Officer of Banana Republic from 1995 to 2000, also serving as Chief Executive Officer of Gap, Inc. Direct from 1998 to 2000. Since 1978, she has held various retail management positions with Victoria's Secret, The Walt Disney Company, Saks Fifth Avenue and Federated Department Stores.

Hilary K. Krane, Executive Vice President, Chief Administrative Officer and General Counsel — Ms. Krane, 52, joined NIKE as Vice President and General Counsel in April 2010. In 2011, her responsibilities expanded and she became Vice President, General Counsel and Corporate Affairs. Ms. Krane was appointed Executive Vice President, Chief Administrative Officer and General Counsel in 2013. Prior to joining NIKE, Ms. Krane was General Counsel and Senior Vice President for Corporate Affairs at Levi Strauss & Co. from 2006 to 2010. From 1996 to 2006, she was a partner and assistant general counsel at PricewaterhouseCoopers LLP.

John F. Slusher, Executive Vice President, Global Sports Marketing — Mr. Slusher, 47, has been employed by NIKE since 1998 with primary responsibilities in global sports marketing. Mr. Slusher was appointed Director of Sports Marketing for the Asia Pacific and Americas in 2006, divisional Vice President of Asia Pacific & Americas Sports Marketing in September 2007 and Vice President, Global Sports Marketing in November 2007. Prior to joining NIKE, Mr. Slusher was an attorney at the law firm of O'Melveny & Myers from 1995 to 1998.

Michael Spillane, President, Product and Merchandising — Mr. Spillane, 56, joined NIKE in 2007. He was appointed President, Product and Merchandising in 2016. He has served the Company in various roles including Vice President and General Manager of Greater China, Chief Executive Officer of Umbro and Converse and most recently as Vice President and General Manager of Footwear. Prior to joining NIKE, Mr. Spillane held leadership roles at Polartec, Maiden Mills Industries, Inc. and Tommy Hilfiger Licensing, LLC.

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Eric D. Sprunk, Chief Operating Officer — Mr. Sprunk, 52, joined NIKE in 1993. He was appointed Finance Director and General Manager of the Americas in 1994, Finance Director for NIKE Europe in 1995, Regional General Manager of NIKE Europe Footwear in 1998 and Vice President & General Manager of the Americas in 2000. Mr. Sprunk was appointed Vice President of Global Footwear in 2001, Vice President of Merchandising and Product in 2009 and Chief Operating Officer in 2013. Prior to joining NIKE, Mr. Sprunk was a certified public accountant with Price Waterhouse from 1987 to 1993.

ITEM 1A. Risk Factors

Special Note Regarding Forward-Looking Statements and Analyst Reports

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

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

Investors should also be aware that while NIKE does, from time to time, communicate with securities analysts, it is against NIKE’s policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that NIKE agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, NIKE has a policy against 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.

Our products face intense competition.

NIKE is a consumer products company and the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. The athletic footwear, apparel and equipment industry is highly competitive both in the United States and worldwide. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment. We also compete with other companies for the production capacity of independent manufacturers that produce our products.

Product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, customer service and social media presence are areas of intense competition. This, in addition to rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations. If we do not adequately and timely anticipate and respond to our competitors, our costs may increase or the consumer demand for our products may decline significantly.

Failure to maintain our reputation and brand image could negatively impact our business.

Our iconic brands have worldwide recognition, and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining, promoting and growing our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, product innovation and product quality. Our commitment to product innovation and quality and our continuing investment in design (including materials) and marketing may not have the desired impact on our brand image and reputation. We could be adversely impacted if we fail to achieve any of these objectives or if the reputation or image of any of our brands is tarnished or receives negative publicity. In addition, adverse publicity about regulatory or legal action against us, or by us, could damage our reputation and brand image, undermine consumer confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations.

In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and digital dissemination of advertising campaigns. Negative posts or comments about us on social networking websites could seriously damage our reputation and brand image. If we do not maintain, extend and expand our brand image, then our product sales, financial condition and results of operations could be materially and adversely affected.

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If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our revenues and profits.

Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. However, lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, and influencing sports and fitness preferences through aggressive marketing, we could experience lower sales, excess inventories or lower profit margins, any of which could have an adverse effect on our results of operations and financial condition. In addition, we market our products globally through a diverse spectrum of advertising and promotional programs and campaigns, including social media and online advertising. If we do not successfully market our products or if advertising and promotional costs increase, these factors could have an adverse effect on our business, financial condition and results of operations.

We rely on technical innovation and high-quality products to compete in the market for our products.

Technical innovation and quality control in the design and manufacturing process of footwear, apparel and athletic equipment is essential to the commercial success of our products. Research and development plays a key role in technical innovation. We rely upon specialists in the fields of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, as well as research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts to develop and test cutting edge performance products. While we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems.

Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.

We establish relationships with professional athletes, sports teams and leagues to develop, evaluate and promote our products, as well as establish product authenticity with consumers. However, as competition in our industry has increased, the costs associated with establishing and retaining such sponsorships and other relationships have increased. If we are unable to maintain our current associations with professional athletes, sports teams and leagues, or to do so at a reasonable cost, we could lose the on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brands, net revenues, expenses and profitability could be harmed.

Furthermore, if certain endorsers were to stop using our products contrary to their endorsement agreements, our business could be adversely affected. In addition, actions taken by athletes, teams or leagues associated with our products that harm the reputations of those athletes, teams or leagues, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition. In addition, poor performance by our endorsers, a failure to continue to correctly identify promising athletes to use and endorse our products or a failure to enter into cost-effective endorsement arrangements with prominent athletes and sports organizations could adversely affect our brand, sales and profitability.

Currency exchange rate fluctuations could result in lower revenues, higher costs and decreased margins and earnings.

A majority of our products are manufactured and sold outside of the United States. As a result, we conduct purchase and sale transactions in various currencies, which increases our exposure to fluctuations in foreign currency exchange rates globally. Additionally, there has been, and may continue to be, volatility in currency exchange rates as a result of the United Kingdom's June 23, 2016 referendum in which voters approved the United Kingdom's exit from the European Union, commonly referred to as “Brexit.” Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into U.S. Dollars for consolidated financial reporting, as weakening of foreign currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations have adversely affected and could continue to have an adverse effect on our results of operations and financial condition.

We may hedge certain foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger U.S. Dollar or other trading currency, but they also reduce the positive impact of a weaker U.S. Dollar or other trading currency. Our future financial results could be significantly affected by the value of the U.S. Dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

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Global economic conditions could have a material adverse effect on our business, operating results and financial condition.

The uncertain state of the global economy continues to impact businesses around the world, most acutely in emerging markets and developing economies. If global economic and financial market conditions do not improve or deteriorate, the following factors could have a material adverse effect on our business, operating results and financial condition:

- Slower consumer spending may result in reduced demand for our products, reduced orders from retailers for our products, order cancellations, lower revenues, higher discounts, increased inventories and lower gross margins.
- In the future, we may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so.
- We conduct transactions in various currencies, which increases our exposure to fluctuations in foreign currency exchange rates relative to the U.S. Dollar. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies could have a significant impact on our reported operating results and financial condition.
- Continued volatility in the availability and prices for commodities and raw materials we use in our products and in our supply chain (such as cotton or petroleum derivatives) could have a material adverse effect on our costs, gross margins and profitability.
- If retailers of our products experience declining revenues or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, late retailer payments, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense.
- If retailers of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could negatively impact the sale of our products to consumers.
- If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products.

Our business is affected by seasonality, which could result in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third fiscal quarters. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment and in connection with the timing of significant sporting events, including without limitation the Olympics and the European football championship. In addition, our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including general economic conditions, changes in consumer preferences, weather conditions, availability of import quotas, transportation disruptions and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of additional factors that are beyond our control, including manufacturing and transportation costs, shifts in product sales mix and geographic sales trends, all of which we expect to continue. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

Futures orders may not be an accurate indication of our future revenues.

We make substantial use of our futures ordering program, which allows retailers to order five to six months in advance of delivery with the commitment that their orders will be delivered within a set period of time at a fixed price. Our futures ordering program allows us to minimize the amount of products we hold in inventory, purchasing costs, the time necessary to fill customer orders and the risk of non-delivery. We report changes in futures orders in our periodic financial reports. Although we believe futures orders are an important indicator of our future revenues, reported futures orders are not necessarily indicative of our expectation of revenues for any future period. This is due to year-over-year changes in shipment timing, changes in the mix of orders between futures and at-once orders 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. Moreover, a portion of our revenue is not derived from futures orders, including sales of at-once and closeout NIKE Brand footwear and apparel, all sales of NIKE Brand equipment, the difference between retail sales and internal orders from our Direct to Consumer in-line stores and e-commerce operations, and sales from Converse, NIKE Golf and Hurley.

Our futures ordering program does not prevent excess inventories or inventory shortages, which could result in decreased operating margins, reduced cash flows and harm to our business.

We purchase products from manufacturers outside of our futures ordering program and in advance of customer orders, which we hold in inventory and resell to customers. There is a risk we may be unable to sell excess products ordered from manufacturers. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have an adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships and diminish brand loyalty.

The difficulty in forecasting demand also makes it difficult to estimate our future results of operations, financial condition and cash flows from period to period. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income, and we are unlikely to forecast such effects with any certainty in advance.

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We may be adversely affected by the financial health of our customers.
We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers the ability to place orders five to six months ahead of delivery under our futures ordering program. These advance orders may be canceled, and the risk of cancellation may increase when dealing with financially unstable retailers or retailers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties up to and including bankruptcies, which have had an adverse effect on our sales, our ability to collect on receivables and our financial condition. When the retail economy weakens, retailers may be more cautious with orders. A slowing economy in our key markets could adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operations and financial condition. In addition, product sales are dependent in part on high quality merchandising and an appealing store environment to attract consumers, which requires continuing investments by retailers. Retailers that experience financial difficulties may fail to make such investments or delay them, resulting in lower sales and orders for our products.
Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk and impair our ability to sell products.
The athletic footwear, apparel and equipment retail markets in some countries are dominated by a few large athletic footwear, apparel and equipment retailers with many stores. These retailers have in the past increased their market share and may continue to do so in the future by expanding through acquisitions and construction of additional stores. These situations concentrate our credit risk with a relatively small number of retailers, and, if any of these retailers were to experience a shortage of liquidity, it would increase the risk that their outstanding payables to us may not be paid. In addition, increasing market share concentration among one or a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our products, we may be unable to find a sufficient number of other retail outlets for our products to sustain the same level of sales and revenues.
Our Direct to Consumer operations have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.
Our Direct to Consumer stores have required substantial fixed investment in equipment and leasehold improvements, information systems, inventory and personnel. We have entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than other stores. Due to the high fixed-cost structure associated with our Direct to Consumer operations, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and employee-related costs.
Many factors unique to retail operations, some of which are beyond the Company's control, pose risks and uncertainties. Risks include, but are not limited to: credit card fraud; mismanagement of existing retail channel partners; and inability to manage costs associated with store construction and operation. In addition, extreme weather conditions in the areas in which our stores are located could adversely affect our business.
If the technology-based systems that give our customers the ability to shop with us online do not function effectively, our operating results, as well as our ability to grow our e-commerce business globally, could be materially adversely affected.
Many of our customers shop with us through our e-commerce website and mobile commerce applications. Increasingly, customers are using tablets and smart phones to shop online with us and with our competitors and to do comparison shopping. We are increasingly using social media and proprietary mobile applications to interact with our customers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, user-friendly e-commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers could place us at a competitive disadvantage, result in the loss of e-commerce and other sales, harm our reputation with customers, have a material adverse impact on the growth of our e-commerce business globally and could have a material adverse impact on our business and results of operations.

Risks specific to our e-commerce business also include diversion of sales from our and our retailers' brick and mortar stores, difficulty in recreating the in-store experience through direct channels and liability for online content. Our failure to successfully respond to these risks might adversely affect sales in our e-commerce business, as well as damage our reputation and brands.

Failure to adequately protect or enforce our intellectual property rights could adversely affect our business.

We believe that our intellectual property rights are important to our brand, our success and our competitive position. We periodically discover products that are counterfeit reproductions of our products or that otherwise infringe on our intellectual property rights. If we are unsuccessful in enforcing our intellectual property, continued sales of these products could adversely affect our sales and our brand and could result in a shift of consumer preference away from our products.

The actions we take to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights.

We may be subject to liability if third parties successfully claim that we infringe on their intellectual property rights. Defending infringement claims could be expensive and time-consuming and might result in our entering into costly license agreements. We also may be subject to significant damages or injunctions against development, use, importation and/or sale of certain products.

We take various actions to prevent the unauthorized use and/or disclosure of confidential information. Such actions include contractual measures such as entering into non-disclosure and non-compete agreements and providing confidential information awareness training. Our controls and efforts to prevent unauthorized use and/or disclosure of confidential information might not always be effective. Confidential information that is related to business strategy, new technologies, mergers and acquisitions, unpublished financial results or personal data could be prematurely or inadvertently used and/or disclosed, resulting in a loss of reputation, a decline in our stock price and/or a negative impact on our market position, and could lead to damages, fines, penalties or injunctions.

In addition, the laws of certain countries may not protect or allow enforcement of intellectual property rights to the same extent as the laws of the United States. We may face significant expenses and liability in connection with the protection of our intellectual property rights, including outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

We are subject to the risk that our licensees may not generate expected sales or maintain the value of our brands.

We currently license, and expect to continue licensing, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. If our licensees fail to successfully market and sell licensed products, or fail to obtain sufficient capital or effectively manage their business operations, customer relationships, labor relationships, supplier relationships or credit risks, it could adversely affect our revenues, both directly from reduced royalties received and indirectly from reduced sales of our other products.

We also rely on our licensees to help preserve the value of our brands. Although we attempt to protect our brands through approval rights over the design, production processes, quality, packaging, merchandising, distribution, advertising and promotion of our licensed products, we cannot completely control the use of our licensed brands by our licensees. The misuse of a brand by a licensee could have a material adverse effect on that brand and on us.

We are subject to data security and privacy risks that could negatively affect our results, operations or reputation.

In addition to our own sensitive and proprietary business information, we collect transactional and personal information about our customers and users of our digital experiences, which include online distribution channels and product engagement and personal fitness applications. Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks. Any breach of our network may result in the loss of valuable business data, misappropriation of our consumers', users' or employees' personal information or a disruption of our business, which could give rise to unwanted media attention, materially damage our consumers, customer relationships and our reputation and result in lost sales, lost users, fines, or lawsuits. We also may need to expend significant resources to protect against, respond to and/or redress problems caused by any breach.

In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data. Compliance with existing and proposed laws and regulations can be costly, and any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, damage to our reputation and credibility and could have a negative impact on revenues and profits.

Failure of our contractors or our licensees' contractors to comply with our code of conduct, local laws and other standards could harm our business.

We work with hundreds of contractors outside of the United States to manufacture our products, and we also have license agreements that permit unaffiliated parties to manufacture or contract for the manufacture of products using our intellectual property. We require the contractors that directly manufacture our products and our licensees that make products using our intellectual property (including, indirectly, their contract manufacturers) to comply with a code of conduct and other environmental, health and safety standards for the benefit of workers. We also require these contractors to comply with applicable standards for product safety. Notwithstanding their contractual obligations, from time to time contractors may not comply with such standards or applicable local law or our licensees may fail to enforce such standards or applicable local law on their contractors. Significant or continuing noncompliance with such standards and laws by one or more contractors could harm our reputation or result in a product recall and, as a result, could have an adverse effect on our sales and financial condition.

Our international operations involve inherent risks which could result in harm to our business.

Virtually all of our athletic footwear and apparel is manufactured outside of the United States, and the majority of our products are sold outside of the United States. Accordingly, we are subject to the risks generally associated with global trade and doing business abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political unrest, disruptions or delays in cross-border shipments and changes in economic conditions in countries in which our products are manufactured or where we sell products. This includes, for example, the uncertainty surrounding the implementation and effect of Brexit, including changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union. In addition, disease outbreaks, terrorist acts and military conflict have increased the risks of doing business abroad. These factors, among others, could affect our ability to manufacture products or procure materials, our ability to import products, our ability to sell products in international markets and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be adversely affected. In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States and other countries. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, safeguard measures, anti-dumping duties, cargo restrictions to prevent terrorism, restrictions on the transfer of currency, climate change legislation, product safety regulations or other charges or restrictions, any of which could have an adverse effect on our results of operations and financial condition.

We could be subject to changes in tax rates, adoption of new tax laws or additional tax liabilities.

We are subject to the tax laws in the United States and numerous foreign jurisdictions. Current economic and political conditions make tax rules in any jurisdiction, including the United States, subject to significant change. There have been proposals to reform U.S. and foreign tax laws that could significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form these proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our income tax expense and cash flows. We earn a substantial portion of our income in foreign countries and are subject to the tax laws of those jurisdictions. If our capital or financing needs in the United States require us to repatriate earnings from foreign jurisdictions above our current levels, our effective income tax rates for the affected periods could be negatively impacted.

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays and rulings that expire in whole or in part from time to time. These tax holidays and rulings may be extended when certain conditions are met, or terminated if certain conditions are not met. If the tax holidays and rulings are not extended, or if we fail to satisfy the conditions of the reduced tax rate, our future effective income tax rate would increase in the future.
We are also subject to the examination of our tax returns by the United States Internal Revenue Service ("IRS") and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for income taxes. Although we believe our tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from our historical income tax provisions and accruals. The results of audits or related disputes could have an adverse effect on our financial statements for the period or periods for which the applicable final determinations are made. For example, the IRS has assessed additional tax liabilities for 2011 and 2012 related to a foreign tax credit matter. We are currently contesting the matter in U.S. Tax Court. In addition to the risk of additional tax for these years, if this litigation is adversely determined and the IRS was to seek similar adjustments in subsequent years, we could be subject to significant additional tax liabilities. Additionally, we and our subsidiaries are engaged in a number of intercompany transactions across multiple tax jurisdictions. Although we believe we have clearly reflected the economics of these transactions and the proper local transfer pricing documentation is in place, tax authorities may propose and sustain adjustments that could result in changes that may impact our mix of earnings in countries with differing statutory tax rates.
If one or more of our counterparty financial institutions default on their obligations to us or fail, we may incur significant losses.
As part of our hedging activities, we enter into transactions involving derivative financial instruments, which may include forward contracts, commodity futures contracts, option contracts, collars and swaps with various financial institutions. In addition, we have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the United States and abroad. As a result, we are exposed to the risk of default by or failure of counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default or our assets that are deposited or held in accounts with such counterparty may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.
We rely on a concentrated source base of contract manufacturers to supply a significant portion of our footwear products.
NIKE is supplied by approximately 142 footwear factories located in 15 countries. We do not own or operate any of our own footwear manufacturing facilities and depend upon independent contract manufacturers to manufacture all of the footwear products we sell. In fiscal 2016, five footwear contract manufacturers each accounted for greater than 10% of fiscal 2016 footwear production and in aggregate accounted for approximately 69% of NIKE Brand footwear production in fiscal 2016. Our ability to meet our customers' needs depends on our ability to maintain a steady supply of products from our independent contract manufacturers. If one or more of our significant suppliers were to sever their relationship with us or significantly alter the terms of our relationship, we may not be able to obtain replacement products in a timely manner, which could have a material adverse effect on our sales, financial condition or results of operations. Additionally, if any of our primary contract manufacturers fail to make timely shipments, do not meet our quality standards or otherwise fail to deliver us product in accordance with our plans, there could be a material adverse effect on our results of operations.
Our products are subject to risks associated with overseas sourcing, manufacturing and financing.
The principal materials used in our apparel products — natural and synthetic fabrics and threads, specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat or repel rain and/or snow as well as plastic and metal hardware — are available in countries where our manufacturing takes place. The principal materials used in our footwear products — natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, natural and synthetic fabrics and threads, nylon, canvas and polyurethane films — are also

locally available to manufacturers. Both our apparel and footwear products are dependent upon the ability of our unaffiliated contract manufacturers to locate, train, employ and retain adequate personnel. NIKE contractors and suppliers buy raw materials and are subject to wage rates that are oftentimes regulated by the governments of the countries in which our products are manufactured.

There could be a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption, our contract manufacturers might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price or at all. Further, our unaffiliated contract manufacturers have experienced and may continue to experience in the future, unexpected increases in work wages, whether government mandated or otherwise and increases in compliance costs due to governmental regulation concerning certain metals used in the manufacturing of our products. In addition, we cannot be certain that our unaffiliated manufacturers will be able to fill our orders in a timely manner. If we experience significant increases in demand, or reductions in the availability of materials, or need to replace an existing manufacturer, there can be no assurance that additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier or manufacturer would allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing or sources of materials, we may encounter delays in production and added costs as a result of the time it takes to train suppliers and manufacturers in our methods, products, quality control standards and labor, health and safety standards. Any delays, interruption or increased costs in labor or wages, or the supply of materials or manufacture of our products could have an adverse effect on our ability to meet retail customer and consumer demand for our products and result in lower revenues and net income both in the short- and long-term.

Because independent manufacturers make a majority of our products outside of our principal sales markets, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, work stoppages, port strikes, infrastructure congestion or other factors, and costs and delays associated with consolidating or transitioning between manufacturers, could adversely impact our financial performance. In addition, manufacturing delays or unexpected demand for our products may require us to use faster, but more expensive, transportation methods such as air freight, which could adversely affect our profit margins. The cost of oil is a significant component in manufacturing and transportation costs, so increases in the price of petroleum products can adversely affect our profit margins.

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In addition, Sojitz America performs significant import-export financing services for the Company. During fiscal 2016, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Uruguay, Brazil, Canada, India, South Africa and Thailand (collectively the "Sojitz Markets"), excluding products produced and sold in the same country. Any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in the Sojitz Markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability.

Our success depends on our global distribution facilities.

We distribute our products to customers directly from the factory and through distribution centers located throughout the world. Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies and growth, particularly in emerging markets, depends on the proper operation of our distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties (including those involved in shipping product to and from our distribution facilities). Our distribution facilities could be interrupted by information technology problems and disasters such as earthquakes or fires. Any significant failure in our distribution facilities could result in an adverse effect on our business. We maintain business interruption insurance, but it may not adequately protect us from adverse effects that could be caused by significant disruptions in our distribution facilities.

We rely significantly on information technology to operate our business, including our supply chain and retail operations, and any failure, inadequacy or interruption of that technology could harm our ability to effectively operate our business.

We are heavily dependent on information technology systems and networks, including the Internet and third-party hosted services ("information technology systems"), across our supply chain, including product design, production, forecasting, ordering, manufacturing, transportation, sales and distribution, as well as for processing financial information for external and internal reporting purposes, retail operations and other business activities. Our information technology systems are critical to many of our operating activities and our business processes and may be negatively impacted by any service interruption or shutdown. For example, our ability to effectively manage and maintain our inventory and to ship products to customers on a timely basis depends significantly on the reliability of these information technology systems. Over a number of years, we have implemented information technology systems in all of the geographical regions in which we operate. Our work to integrate, secure and enhance these systems and related processes in our global operations is ongoing and NIKE will continue to invest in these efforts. The failure of these systems to operate effectively, including as a result of security breaches, viruses, hackers or other causes, or our failure to properly maintain, protect, repair or upgrade our systems, or problems with transitioning to upgraded or replacement systems could cause delays in product fulfillment and reduced efficiency of our operations, could require significant capital investments to remediate the problem and may have an adverse effect on our reputation, results of operations and financial condition.

We also use information technology systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, which could result in lost revenues and profits, as well as reputational damage. Furthermore, we depend on information technology systems and personal data collection and use for digital marketing, digital commerce, consumer engagement and the marketing and use of our digital products and services. We also rely on our ability to engage in electronic communications throughout the world between and among our employees as well as with other third parties, including customers, suppliers, vendors and consumers. Any interruption in our information technology systems may impede our ability to engage in the digital space and result in lost revenues, damage to our reputation, and loss of users.

The market for prime real estate is competitive.

Our ability to effectively obtain real estate to open new retail stores and otherwise conduct our operations, both domestically and internationally, depends on the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics and other factors. We also must be able to effectively renew our

existing real estate leases. In addition, from time to time, we seek to downsize, consolidate, reposition or close some of our real estate locations, which may require modification of an existing lease. Failure to secure adequate new locations or successfully modify leases for existing locations, or failure to effectively manage the profitability of our existing fleet of retail stores, could have an adverse effect on our operating results and financial condition.
Additionally, the economic environment may at times make it difficult to determine the fair market rent of real estate properties domestically and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents and to renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet our targets or efficiently manage the profitability of our existing fleet of stores, which could have an adverse effect on our operating results and financial condition.

Extreme weather conditions and natural disasters could negatively impact our operating results and financial condition.

Extreme weather conditions in the areas in which our retail stores, suppliers, customers, distribution centers and vendors are located could adversely affect our operating results and financial condition. Moreover, natural disasters such as earthquakes, hurricanes and tsunamis, whether occurring in the United States or abroad, and their related consequences and effects, including energy shortages and public health issues, could disrupt our operations, the operations of our vendors and other suppliers or result in economic instability that may negatively impact our operating results and financial condition.

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in technology, business infrastructure, new businesses, product offering and manufacturing innovation and expansion of existing businesses, such as our retail operations, which require substantial cash investments and management attention. We believe cost-effective investments are essential to business growth and profitability. However, significant investments are subject to typical risks and uncertainties inherent in developing a new business or expanding an existing business. The failure of any significant investment to provide expected returns or profitability could have a material adverse effect on our financial results and divert management attention from more profitable business operations.

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We are subject to periodic litigation and other regulatory proceedings, which could result in unexpected expense of time and resources.

From time to time we are called upon to defend ourselves against lawsuits and regulatory actions relating to our business. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have an adverse impact on our business, financial condition and results of operations. In addition, any significant litigation in the future, regardless of its merits, could divert management's attention from our operations and result in substantial legal fees.

We depend on key personnel, the loss of whom would harm our business.

Our future success will depend in part on the continued service of key executive officers and personnel. The loss of the services of any key individual could harm our business. Our future success also depends on our ability to recruit, retain and engage our personnel sufficiently, both to maintain our current business and to execute our strategic initiatives. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel.

The sale of a large number of shares of common stock by our principal stockholder could depress the market price of our common stock.

As of June 30, 2016, Swoosh, LLC beneficially owned more than 78% of our Class A Common Stock. If, on June 30, 2016, all of these shares were converted into Class B Common Stock, the commensurate ownership percentage of our Class B Common Stock would be approximately 16%. The shares are available for resale, subject to the requirements of the U.S. securities laws and the terms of the limited liability company agreement governing Swoosh, LLC. The sale or prospect of a sale of a substantial number of these shares could have an adverse effect on the market price of our common stock. Swoosh, LLC was formed by Philip H. Knight, our Chairman Emeritus, to hold the majority of his shares of Class A Common Stock. On June 30, 2016, Mr. Knight sold his voting interest in Swoosh, LLC to a trust controlled by his son and NIKE director, Travis Knight.

Changes in our credit ratings or macroeconomic conditions may affect our liquidity, increasing borrowing costs and limiting our financing options.

Our long-term debt is currently rated Investment Grade by Standard & Poor's and Moody's Investors Service. If our credit ratings are lowered, borrowing costs for future long-term debt or short-term credit facilities may increase and our financing options, including our access to the unsecured credit market, could be limited. We may also be subject to restrictive covenants that would reduce our flexibility to, among other things, incur additional indebtedness, make restricted payments, pledge assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Failure to comply with such covenants could result in a default, and as a result, the commitments of our lenders under our credit agreements may be terminated and the maturity of amounts owed may be accelerated. In addition, macroeconomic conditions, such as increased volatility or disruption in the credit markets, could adversely affect our ability to refinance existing debt.

If our internal controls are ineffective, our operating results could be adversely affected.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and

expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, allowance for uncollectible accounts receivable, inventories, contingent payments under endorsement contracts, accounting for property, plant and equipment and definite-lived assets and goodwill and indefinite-lived intangible assets. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class B Common Stock.
Anti-takeover provisions may impair an acquisition of the Company or reduce the price of our common stock.
There are provisions of our articles of incorporation and Oregon law that are intended to protect shareholder interests by providing the Board of Directors a means to attempt to deny coercive takeover attempts or to negotiate with a potential acquirer in order to obtain more favorable terms. Such provisions include a control share acquisition statute, a freeze-out statute, two classes of stock that vote separately on certain issues, and the fact that holders of Class A Common Stock elect three-quarters of the Board of Directors rounded down to the next whole number. However, such provisions could discourage, delay or prevent an unsolicited merger, acquisition or other change in control of our company that some shareholders might believe to be in their best interests or in which shareholders might receive a premium for their common stock over the prevailing market price. These provisions could also discourage proxy contests for control of the Company.

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We may fail to meet market expectations, which could cause the price of our stock to decline.

Our Class B Common Stock is traded publicly, and at any given time various securities analysts follow our financial results and issue reports on us. These reports include information about our historical financial results as well as analysts’ estimates of our future performance. Analysts’ estimates are based upon their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. In the past, securities class action litigation has been brought against NIKE and other companies following a decline in the market price of their securities. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of management’s attention and resources that are needed to successfully run our business.

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ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The following is a summary of principal properties owned or leased by NIKE:

The NIKE World Campus, owned by NIKE and located near Beaverton, Oregon, USA, is a 400-acre site consisting of over 40 buildings which, together with adjacent leased properties, functions as our world headquarters and is occupied by approximately 10,700 employees engaged in management, research, design, development, marketing, finance and other administrative functions serving nearly all of our divisions. We also lease various office facilities in the surrounding metropolitan area. We lease a similar, but smaller, administrative facility in Hilversum, the Netherlands, which serves as the headquarters for the Western Europe and Central & Eastern Europe geographies and management of certain brand functions for our non-U.S. operations. We also lease an office complex in Shanghai, China, our headquarters for Greater China, occupied by employees focused on implementing our wholesale, DTC and merchandising strategies in the region, among other functions. In the United States, NIKE has five significant distribution centers located in Memphis, Tennessee, two of which are owned and three are leased. NIKE Brand apparel and equipment are also shipped from our Foothill Ranch, California distribution center, which we lease. Smaller leased distribution facilities are located in various parts of the United States. We also own or lease distribution and customer service facilities outside the United States. The most significant are the distribution facilities located in Laakdal, Belgium; Taicang, China; Tomisato, Japan and Incheon, Korea, all of which we own.

NIKE IHM, Inc. manufactures Air-Sole cushioning components at NIKE-owned facilities located near Beaverton, Oregon and in St. Charles, Missouri. We also manufacture and sell small amounts of various other plastic products to other manufacturers through NIKE IHM, Inc.

Aside from the principal properties described above, we lease many offices worldwide for sales and administrative purposes. We lease approximately 1,044 retail stores worldwide, which consist primarily of factory outlet stores. See “United States Market” and “International Markets” in Part I of this Report. Our leases expire at various dates through the year 2033.

ITEM 3. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject.

ITEM 4. Mine Safety Disclosures

Not applicable.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

NIKE's Class B Common Stock is listed on the New York Stock Exchange and trades under the symbol NKE. At July 15, 2016, there were 23,196 holders of record of our Class B Common Stock and 16 holders of record of our Class A Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class A Common Stock is not publicly traded but each share is convertible upon request of the holder into one share of Class B Common Stock. Refer to Selected Quarterly Financial Data in Part II, Item 6 of this Report for information regarding quarterly high and low sales prices for the Class B Common Stock as reported on the New York Stock Exchange Composite Tape, and dividends declared on the Class A and Class B Common Stock.

During the third quarter of fiscal 2016, the Company concluded its four-year, $8 billion share repurchase program approved by the Board of Directors in September 2012. Under this program the Company purchased a total of 197.1 million shares at a cost of $8 billion (an average price of $40.58 per share). Following the completion of this program, the Company began repurchases under the new four-year, $12 billion program approved by the Board of Directors in November 2015. As of the end of the fourth quarter of fiscal 2016, the Company had repurchased 20.1 million shares at an average price of $59.21 per share for a total approximate cost of $1.2 billion under the new program. We intend to use excess cash, future cash from operations and/or proceeds from debt to fund repurchases under the share repurchase program.

The following table presents a summary of share repurchases made by NIKE under these programs during the quarter ended May 31, 2016:

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 Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (In millions)
March 1 — March 31, 2016	2,923,173	$ 61.04	2,923,173	$ 11,173
April 1 — April 30, 2016	4,328,107	$ 59.69	4,328,107	$ 10,914
May 1 — May 31, 2016	1,765,373	$ 58.47	1,765,373	$ 10,811
	9,016,653	$ 59.89	9,016,653	

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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, 2011 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 2016	2015	2014	2013	2012
Year Ended May 31,					
Revenues	$32,376	$30,601	$27,799	$25,313	$23,331
Gross profit	14,971	14,067	12,446	11,034	10,148
Gross margin %	46.2 %	46.0 %	44.8 %	43.6 %	43.5 %
Net income from continuing operations	3,760	3,273	2,693	2,451	2,257
Net income (loss) from discontinued operations	—	—	—	21	(46)
Net income	3,760	3,273	2,693	2,472	2,211
Earnings per common share from continuing operations:					
Basic	2.21	1.90	1.52	1.37	1.23
Diluted	2.16	1.85	1.49	1.34	1.20
Earnings per common share from discontinued operations:					
Basic	—	—	—	0.01	(0.03)
Diluted	—	—	—	0.01	(0.02)
Weighted average common shares outstanding	1,697.9	1,723.5	1,766.7	1,794.6	1,839.9
Diluted weighted average common shares outstanding	1,742.5	1,768.8	1,811.6	1,832.9	1,879.2
Cash dividends declared per common share	0.62	0.54	0.47	0.41	0.35
Cash flow from operations, inclusive of discontinued operations	3,096	4,680	3,013	3,032	1,932
Price range of common stock:					
High	68.19	52.75	40.13	32.96	28.60
Low	47.25	36.57	29.56	21.95	19.65
At May 31,					
Cash and equivalents	$3,138	$3,852	$2,220	$3,337	$2,254
Short-term investments	2,319	2,072	2,922	2,628	1,503
Inventories	4,838	4,337	3,947	3,484	3,251
Working capital, excluding assets and liabilities of discontinued operations(1)(2)(3)	9,667	9,255	8,319	9,391	7,271
Total assets, excluding assets of discontinued operations(1)(2)	21,396	21,597	18,587	17,540	14,800
Long-term debt	2,010	1,079	1,199	1,210	228
Capital lease obligations(4)	15	5	74	81	—
Redeemable preferred stock	0.3	0.3	0.3	0.3	0.3
Shareholders' equity	12,258	12,707	10,824	11,081	10,319
Year-end stock price	55.22	50.84	38.46	30.83	27.05
Market capitalization	92,867	87,044	66,921	55,124	49,546
Financial Ratios:					
Return on equity	30.1 %	27.8 %	24.6 %	23.1 %	22.0 %
Return on assets(1)	17.5 %	16.3 %	14.9 %	15.3 %	15.1 %
Inventory turns	3.8	4.0	4.1	4.2	4.5
Current ratio at May 31(1)	2.8	2.5	2.7	3.4	3.0
Price/Earnings ratio at May 31	25.6	27.5	25.9	22.8	23.0

(1) Prior year amounts have been updated to reflect the adoption of Accounting Standards Update No. 2015-17, which requires all deferred tax assets and deferred tax liabilities to be classified as non-current. Refer to Recently Adopted Accounting Standards in Note 1 — Summary of Significant Accounting Policies in the accompanying Notes

to the Consolidated Financial Statements.

(2) Assets of discontinued operations were $0 million, $0 million, $0 million, $0 million and $615 million for the years ended May 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(3) Liabilities of discontinued operations were $0 million, $0 million, $0 million, $18 million and $170 million for the years ended May 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(4) 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)	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	$8,414	$7,982	$7,686	$7,380	$8,032	$7,460	$8,244	$7,779
Gross profit	3,995	3,721	3,501	3,327	3,689	3,426	3,786	3,593
Gross margin %	47.5 %	46.6 %	45.6 %	45.1 %	45.9 %	45.9 %	45.9 %	46.2 %
Net income	1,179	962	785	655	950	791	846	865
Earnings per common share:								
Basic	0.69	0.56	0.46	0.38	0.56	0.46	0.50	0.50
Diluted	0.67	0.54	0.45	0.37	0.55	0.45	0.49	0.49
Weighted average common shares outstanding	1,709.0	1,729.8	1,706.5	1,726.2	1,693.8	1,722.9	1,682.4	1,715.0
Diluted weighted average common shares outstanding	1,754.5	1,772.4	1,751.4	1,769.6	1,737.3	1,767.7	1,723.1	1,759.6
Cash dividends declared per common share	0.14	0.12	0.16	0.14	0.16	0.14	0.16	0.14
Price range of common stock:								
High	58.86	40.15	67.65	49.88	68.19	49.75	65.44	52.75
Low	47.25	36.57	54.01	39.18	53.64	43.35	55.17	47.59

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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 (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 and online.

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 NIKE.com, 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 220 basis points and our return on invested capital has increased from 22.6% to 29.7%.

On November 19, 2015, we announced a two-for-one stock 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 2016 results demonstrated the power of the NIKE, Inc. portfolio to deliver continued growth and expanding profitability. Despite significant foreign currency headwinds, we achieved record revenues and earnings per share for fiscal 2016. NIKE, Inc. Revenues grew 6% to $32.4 billion, gross margin expanded 20 basis points, Net income increased 15% and diluted earnings per common share grew 17% to $2.16. We also delivered strong cash returns to shareholders while investing for long-term growth.

Earnings before interest and income taxes ("EBIT") increased 10% for fiscal 2016, driven by revenue growth and gross margin expansion, while selling and administrative expense was flat as a percent of revenues. The increase in revenues was attributable to growth for nearly every NIKE Brand geography and across most key categories and product types. 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 online and at NIKE-owned and retail partner stores.

Converse revenues and EBIT decreased 1% and 6%, respectively, as growth in direct distribution markets was more than offset by the negative impact of changes in foreign currency exchange rates.

Gross margin increased primarily due to higher full-price average selling price and the favorable impact of growth in our higher-margin DTC businesses, partially offset by higher product costs, primarily due to shifts in mix to higher-cost products and labor input cost inflation, higher off-price mix and unfavorable changes in foreign currency exchange rates.

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For fiscal 2016, the growth in Net income was positively affected by a year-over-year decrease in our effective tax rate of 350 basis points 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. Diluted earnings per common share grew at a higher rate than Net income due to a 1% 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.

Results of Operations

(Dollars in millions, except per share data)	Fiscal 2016	Fiscal 2015	% Change	Fiscal 2014	% Change
Revenues	$32,376	$30,601	6 %	$27,799	10 %
Cost of sales	17,405	16,534	5 %	15,353	8 %
Gross profit	14,971	14,067	6 %	12,446	13 %
Gross margin %	46.2 %	46.0 %		44.8 %	
Demand creation expense	3,278	3,213	2 %	3,031	6 %
Operating overhead expense	7,191	6,679	8 %	5,735	16 %
Total selling and administrative expense	10,469	9,892	6 %	8,766	13 %
% of Revenues	32.3 %	32.3 %		31.5 %	
Interest expense (income), net	19	28	—	33	—
Other (income) expense, net	(140)	(58)	—	103	—
Income before income taxes	4,623	4,205	10 %	3,544	19 %
Income tax expense	863	932	-7 %	851	10 %
Effective tax rate	18.7 %	22.2 %		24.0 %	
Net income	$3,760	$3,273	15 %	$2,693	22 %
Diluted earnings per common share	$2.16	$1.85	17 %	$1.49	24 %

Consolidated Operating Results
Revenues

(Dollars in millions)	Fiscal 2016	Fiscal 2015[1]	% Change	% Change Excluding Currency Changes[2]	Fiscal 2014[1]	% Change	% Change Excluding Currency Changes[2]
NIKE, Inc. Revenues:							
NIKE Brand Revenues by:							
Footwear	$19,871	$18,318	8 %	15 %	$16,208	13 %	17 %
Apparel	9,067	8,637	5 %	11 %	8,109	7 %	10 %
Equipment	1,496	1,631	-8 %	-2 %	1,670	-2 %	1 %
Global Brand Divisions[3]	73	115	-37 %	-30 %	125	-8 %	-2 %
Total NIKE Brand Revenues	30,507	28,701	6 %	13 %	26,112	10 %	14 %
Converse	1,955	1,982	-1 %	2 %	1,684	18 %	21 %
Corporate[4]	(86)	(82)	—	—	3	—	—
TOTAL NIKE, INC. REVENUES	$32,376	$30,601	6 %	12 %	$27,799	10 %	14 %
Supplemental NIKE Brand Revenues Details:							
NIKE Brand Revenues by:							
Sales to Wholesale Customers	$22,577	$21,952	3 %	9 %	$20,683	6 %	10 %
Sales Direct to Consumer	7,857	6,634	18 %	25 %	5,304	25 %	29 %
Global Brand Divisions[3]	73	115	-37 %	-30 %	125	-8 %	-2 %
TOTAL NIKE BRAND REVENUES	$30,507	$28,701	6 %	13 %	$26,112	10 %	14 %
NIKE Brand Revenues on a Wholesale Equivalent Basis:[5]							
Sales to Wholesale Customers	$22,577	$21,952	3 %	9 %	$20,683	6 %	10 %
Sales from our Wholesale Operations to Direct to Consumer Operations	4,672	3,881	20 %	27 %	3,107	25 %	29 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	$27,249	$25,833	5 %	12 %	$23,790	9 %	13 %
NIKE Brand Wholesale Equivalent Revenues by:[5]							
Men's	$15,410	$14,689	5 %	11 %	$13,996	5 %	9 %
Women's	6,296	5,732	10 %	17 %	4,976	15 %	20 %
Young Athletes'	4,560	4,301	6 %	11 %	3,737	15 %	19 %
Others[6]	983	1,111	-12 %	-4 %	1,081	3 %	7 %
TOTAL NIKE BRAND WHOLESALE EQUIVALENT REVENUES	$27,249	$25,833	5 %	12 %	$23,790	9 %	13 %
NIKE Brand Wholesale Equivalent Revenues by:[5]							
Running	$5,017	$4,863	3 %	10 %	$4,626	5 %	9 %
NIKE Basketball	1,378	1,385	-1 %	2 %	1,178	18 %	19 %
Jordan Brand	2,753	2,329	18 %	21 %	1,941	20 %	22 %
Football (Soccer)	2,143	2,250	-5 %	7 %	2,414	-7 %	-2 %
Men’s Training	2,611	2,545	3 %	6 %	2,485	2 %	4 %
Women’s Training	1,344	1,281	5 %	11 %	1,145	12 %	16 %
Action Sports	711	737	-4 %	3 %	738	0 %	4 %
Sportswear	7,513	6,604	14 %	22 %	5,744	15 %	20 %
Golf	706	769	-8 %	-6 %	788	-2 %	0 %
Others[7]	3,073	3,070	0 %	6 %	2,731	12 %	17 %
	$27,249	$25,833	5 %	12 %	$23,790	9 %	13 %

TOTAL NIKE BRAND WHOLESALE
EQUIVALENT REVENUES

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(1) Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

(2) Results have been restated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends by excluding the impact of translation arising from foreign currency exchange rate fluctuations.

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

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

(5) References to NIKE Brand 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.

(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 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 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 strong demand for NIKE Brand products. 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.

Excluding the effects of changes in currency exchange rates, 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 average selling price (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.

While wholesale revenues remain the largest component of overall NIKE Brand revenues, we continue to expand our DTC businesses in each of our geographies. NIKE Brand DTC operations include NIKE-owned in-line and factory stores, as well as online sales through NIKE-owned websites. For fiscal 2016, DTC revenues represented approximately 26% of our total NIKE Brand revenues. On a currency-neutral basis, DTC revenues increased 25% for fiscal 2016, driven by strong online sales growth, the addition of new stores and comparable store sales growth of 10%. 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. Online sales through NIKE-owned websites, which are not included in comparable store sales, grew 51% in fiscal 2016. For fiscal 2016, online sales represented approximately 22% of our total NIKE Brand DTC revenues.

On a wholesale equivalent basis and excluding the effects of changes in 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.

Fiscal 2015 Compared to Fiscal 2014

On a currency-neutral basis, revenues from NIKE, Inc. continuing operations grew 14% for fiscal 2015, driven by increases in revenues for both the NIKE Brand and Converse. Every NIKE Brand geography delivered higher revenues for fiscal 2015 as our category offense continued to deliver innovative products, deep brand connections and compelling retail experiences to consumers. North America contributed 5 percentage points of the increase in NIKE, Inc. revenues, while Western Europe contributed 4 percentage points, Greater China contributed 2 percentage points and Central & Eastern Europe, Emerging Markets and Converse each contributed 1 percentage point.

Excluding the effects of changes in currency exchange rates, NIKE Brand footwear and apparel revenues increased 17% and 10%, respectively, while NIKE Brand equipment revenues increased 1% during fiscal 2015. The increase in NIKE Brand footwear revenues for fiscal 2015 was driven by strong performance in Sportswear, the Jordan Brand, Running, NIKE Basketball and Football (Soccer). Footwear unit sales in fiscal 2015 increased 9%. Higher ASP per pair contributed approximately 8 percentage points of footwear revenue growth, driven primarily by higher full-price ASP, and to a lesser extent, the favorable impact of growth in our higher-priced DTC business.

The constant-currency increase in NIKE Brand apparel revenues for fiscal 2015 was driven by growth in most key categories, led by Sportswear, Running and Women's Training, which were partially offset by a decline in Football (Soccer) due largely to the comparison to significant sales of replica apparel in advance of the World Cup in 2014. Fiscal 2015 unit sales of apparel increased 8% with higher ASP per unit contributing approximately 2 percentage points of apparel revenue growth, driven primarily by growth in our higher-priced DTC business.

For fiscal 2015, DTC revenues represented approximately 23% of our total NIKE Brand revenues compared to 20% in fiscal 2014. On a currency-neutral basis, DTC revenues grew 29% for fiscal 2015, driven by strong comparable store sales growth of 16%, significant online sales growth and the addition of new stores. Online sales through NIKE-owned websites grew 59% in fiscal 2015. Online sales represented approximately 18% of our total NIKE Brand DTC revenues for fiscal 2015 compared to 15% for fiscal 2014.

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On a wholesale equivalent basis and excluding the effects of changes in currency exchange rates, fiscal 2015 NIKE Brand Men's revenues increased 9%, driven by growth in our Sportswear, the Jordan Brand, NIKE Basketball and Running categories. Women's revenues accelerated in fiscal 2015, achieving 20% growth primarily due to increases in Sportswear, Running and Women's Training categories. Revenues in our Young Athletes' business increased 19% as a result of continued efforts to expand footwear and apparel offerings for this group across multiple categories, particularly the Jordan Brand.

Futures Orders

Futures orders for NIKE Brand footwear and apparel scheduled for delivery from June through November 2016 totaled $14.9 billion and were 8% higher than the orders reported for the comparable prior year period. NIKE Brand reported futures include (1) orders from external wholesale customers and (2) internal orders from our DTC in-line stores and e-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. Excluding the impact of currency changes, futures orders increased 11%, with unit orders increasing 4% and average selling price per unit contributing approximately 7 percentage points of growth.

By geography, futures orders growth was as follows:

	Reported Futures Orders	Futures Orders Excluding Currency Changes(1)
North America	6%	6%
Western Europe	8%	11%
Central & Eastern Europe	3%	7%
Greater China	19%	24%
Japan	24%	15%
Emerging Markets	3%	13%
TOTAL NIKE BRAND FUTURES ORDERS	8%	11%

(1) Reported futures have been restated 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.

The reported futures orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is due to year-over-year changes in shipment timing, changes in the mix of orders between futures and at-once orders, and because the fulfillment of certain orders may fall outside of the schedule noted above. In addition, 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. Moreover, a portion of our revenue is not derived from futures orders, including sales of at-once and 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 e-commerce operations, and sales from Converse, NIKE Golf and Hurley.

Gross Margin

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	Fiscal 2014	% Change
Gross profit	$14,971	$14,067	6 %	$12,446	13 %
Gross margin %	46.2 %	46.0 %	20 bps	44.8 %	120 bps

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 (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.

Fiscal 2015 Compared to Fiscal 2014

For fiscal 2015, our consolidated gross margin was 120 basis points higher than fiscal 2014, primarily driven by the following factors:

- Higher NIKE Brand full-price ASP (increasing gross margin approximately 250 basis points) primarily attributable to shifts in mix to higher-priced products and, to a lesser extent, price increases in response to inflationary conditions in certain territories;

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- Higher NIKE Brand product costs (decreasing gross margin approximately 190 basis points) largely due to shifts in mix to higher-cost products, labor input cost inflation and higher air freight costs, in part to mitigate the negative impacts from product delays due to the West Coast port congestion in the United States;
- Growth in our higher-margin DTC business (increasing gross margin approximately 40 basis points); and
- Changes in foreign currency exchange rates (including gains and losses on hedge transactions) increased gross margin approximately 20 basis points.

Total Selling and Administrative Expense

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	Fiscal 2014	% Change
Demand creation expense[(1)]	$3,278	$3,213	2 %	$3,031	6 %
Operating overhead expense	7,191	6,679	8 %	5,735	16 %
Total selling and administrative expense	$10,469	$9,892	6 %	$8,766	13 %
% of Revenues	32.3 %	32.3 %	—	31.5 %	80 bps

(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 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 targeted investments in operational infrastructure and consumer-focused digital capabilities, partially offset by lower performance-based compensation. Changes in foreign currency exchange rates decreased growth in Operating overhead expense by approximately 4 percentage points for fiscal 2016.

Fiscal 2015 Compared to Fiscal 2014

Demand creation expense increased 6% for fiscal 2015 compared to the prior year, primarily due to support for key brand and consumer events, including the World Cup in early fiscal 2015, increased digital brand marketing, investments in DTC marketing and higher sports marketing expense. Changes in foreign currency exchange rates decreased growth in Demand creation expense by approximately 4 percentage points for fiscal 2015.

Operating overhead expense increased 16% compared to the prior year, primarily driven by investments in our rapidly growing DTC business, including new store openings and higher variable expenses, investments in operational infrastructure and consumer-focused digital capabilities and higher performance-based compensation. For fiscal 2015, changes in foreign currency exchange rates decreased growth in Operating overhead expense by approximately 3 percentage points.

Other (Income) Expense, Net

(In millions)	Fiscal 2016	Fiscal 2015	Fiscal 2014
Other (income) expense, net	$(140)	$(58)	$103

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 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 business 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 $423 million for fiscal 2016.
Fiscal 2015 Compared to Fiscal 2014
Other (income) expense, net shifted from $103 million of other expense, net for fiscal 2014 to $58 million of other income, net for fiscal 2015, primarily driven by a $147 million net change in foreign currency conversion gains and losses, primarily due to significant hedge gains from available-for-sale investments, as well as an adverse legal judgment in the prior year related to a long outstanding bankruptcy case for a former customer in Western Europe.
We estimate the combination of the translation of foreign currency-denominated profits from our international business 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 $73 million for fiscal 2015.

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Income Taxes

	Fiscal 2016	Fiscal 2015	% Change	Fiscal 2014	% Change
Effective tax rate	18.7 %	22.2 %	(350) bps	24.0 %	(180) bps

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.

Fiscal 2015 Compared to Fiscal 2014

The 180 basis point decrease in our effective tax rate for the fiscal year was primarily due to the favorable resolution of audits in several jurisdictions.

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 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 2016	Fiscal 2015(1)	% Change	% Change Excluding Currency Changes(2)	Fiscal 2014(1)	% Change	% Change Excluding Currency Changes(2)
North America	$14,764	$13,740	7 %	8 %	$12,299	12 %	12 %
Western Europe	5,884	5,705	3 %	14 %	4,979	15 %	21 %
Central & Eastern Europe	1,431	1,421	1 %	17 %	1,387	2 %	15 %
Greater China	3,785	3,067	23 %	27 %	2,602	18 %	19 %
Japan	869	755	15 %	22 %	771	-2 %	9 %
Emerging Markets	3,701	3,898	-5 %	13 %	3,949	-1 %	8 %
Global Brand Divisions(3)	73	115	-37 %	-30 %	125	-8 %	-2 %
Total NIKE Brand Revenues	30,507	28,701	6 %	13 %	26,112	10 %	14 %
Converse	1,955	1,982	-1 %	2 %	1,684	18 %	21 %
Corporate(4)	(86)	(82)	—	—	3	—	—
TOTAL NIKE, INC. REVENUES	$32,376	$30,601	6 %	12 %	$27,799	10 %	14 %

(1) Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

(2) Results have been restated using actual exchange rates in use during the comparative prior year period to enhance the visibility of the underlying business trends by excluding the impact of translation arising from foreign currency

exchange rate fluctuations.

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

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

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 2016	Fiscal 2015[1]	% Change	Fiscal 2014[1]	% Change
North America	$3,763	$ 3,645	3 %	$ 3,077	18 %
Western Europe	1,434	1,275	12 %	855	49 %
Central & Eastern Europe	289	249	16 %	279	-11 %
Greater China	1,372	993	38 %	816	22 %
Japan	174	100	74 %	131	-24 %
Emerging Markets	892	818	9 %	952	-14 %
Global Brand Divisions	(2,596)	(2,267)	-15 %	(1,993)	-14 %
Total NIKE Brand	5,328	4,813	11 %	4,117	17 %
Converse	487	517	-6 %	496	4 %
Corporate	(1,173)	(1,097)	-7 %	(1,036)	-6 %
TOTAL CONSOLIDATED EARNINGS BEFORE INTEREST AND TAXES	4,642	4,233	10 %	3,577	18 %
Interest expense (income), net	19	28	—	33	—
TOTAL CONSOLIDATED INCOME BEFORE INCOME TAXES	$4,623	$ 4,205	10 %	$ 3,544	19 %

(1) Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

North America

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	% Change Excluding Currency Changes	Fiscal 2014	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$9,299	$8,506	9 %	10 %	$7,495	13 %	14 %
Apparel	4,746	4,410	8 %	8 %	3,937	12 %	12 %
Equipment	719	824	-13 %	-13 %	867	-5 %	-5 %
TOTAL REVENUES	$14,764	$13,740	7 %	8 %	$12,299	12 %	12 %
Revenues by:							
Sales to Wholesale Customers	$10,674	$10,243	4 %	5 %	$9,296	10 %	10 %
Sales Direct to Consumer	4,090	3,497	17 %	17 %	3,003	16 %	17 %
TOTAL REVENUES	$14,764	$13,740	7 %	8 %	$12,299	12 %	12 %
EARNINGS BEFORE INTEREST AND TAXES	$3,763	$3,645	3 %		$3,077	18 %	

Fiscal 2016 Compared to Fiscal 2015

Excluding changes in foreign currency exchange rates, 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 online sales growth, the addition of new stores and comparable store sales growth of 6%.

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 average selling price (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.

Reported 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 only partially offset by lower performance-based 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.

Fiscal 2015 Compared to Fiscal 2014

North America revenues increased 12%, despite congestion at ports on the West Coast of the United States in the second half of the fiscal year, which affected the Company's supply chain and flow of product to customers. Revenue growth was driven by nearly all key categories for fiscal 2015, led by the Jordan Brand, Sportswear, Men's Training, NIKE Basketball and Women's Training. On a constant currency basis, DTC revenue grew 17% for fiscal 2015, fueled by comparable store sales growth of 8%, strong online sales growth and the addition of new stores.

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Footwear revenue growth was driven by increases in most key categories, notably the Jordan Brand, NIKE Basketball and Sportswear. Unit sales of footwear for fiscal 2015 increased 6%, while higher ASP per pair contributed approximately 8 percentage points of footwear revenue growth, primarily due to higher full-price ASP.
Apparel revenue growth was attributable to strong demand in most key categories, led by Sportswear, Men's Training, Women's Training and Running, partially offset by slight declines in Football (Soccer) and Action Sports. For fiscal 2015, unit sales of apparel increased 9%. Higher ASP per unit contributed approximately 3 percentage points of apparel revenue growth, driven primarily by higher full-price ASP and the favorable impact of growth in our higher-priced DTC business.
EBIT grew 18% for fiscal 2015 as a result of higher revenues, gross margin expansion and selling and administrative expense leverage. Gross margin increased 110 basis points due to higher full-price ASP, improved off-price product margins and lower inventory obsolescence costs, partially offset by higher product input and logistics costs. Selling and administrative expense decreased as a percent of revenues despite higher demand creation expense to support key brand and sporting events and higher sports marketing expense. Operating overhead costs also increased to support DTC growth and investments in infrastructure, as well as higher performance-based compensation costs.
Western Europe

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	% Change Excluding Currency Changes	Fiscal 2014	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$3,985	$3,876	3 %	14 %	$3,299	17 %	25 %
Apparel	1,628	1,552	5 %	16 %	1,427	9 %	14 %
Equipment	271	277	-2 %	8 %	253	9 %	15 %
TOTAL REVENUES	$5,884	$5,705	3 %	14 %	$4,979	15 %	21 %
Revenues by:							
Sales to Wholesale Customers	$4,429	$4,451	0 %	10 %	$4,022	11 %	17 %
Sales Direct to Consumer	1,455	1,254	16 %	28 %	957	31 %	40 %
TOTAL REVENUES	$5,884	$5,705	3 %	14 %	$4,979	15 %	21 %
EARNINGS BEFORE INTEREST AND TAXES	$1,434	$1,275	12 %		$855	49 %	

Fiscal 2016 Compared to Fiscal 2015
Excluding changes in currency exchange rates, 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 online 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.
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.

Fiscal 2015 Compared to Fiscal 2014

Excluding the changes in currency exchange rates, revenues for fiscal 2015 increased 21% and grew in every territory, led by AGS and the UK & Ireland, our largest territories in Western Europe, which grew 27% and 20%, respectively. Revenues grew for every key category, most notably Sportswear and Running. DTC revenues grew 40%, driven by comparable store sales growth of 24%, strong online sales growth and the addition of new stores.

The constant currency footwear revenue growth was driven by increases in nearly every category, most notably Sportswear, Running and Football (Soccer). For fiscal 2015, unit sales of footwear increased 20%. Higher ASP per pair contributed approximately 5 percentage points of footwear revenue growth, driven equally by higher full-price ASP and the favorable impact of growth in our higher-priced DTC business.

The constant currency apparel revenue growth was attributable to increases in nearly all key categories, led by Sportswear, Women's Training and Running, partially offset by a slight decline in Football (Soccer) primarily due to the impact of World Cup in fiscal 2014. Unit sales of apparel in fiscal 2015 increased 14% while ASP per unit was flat.

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Despite the negative translation impact from changes in foreign currency exchange rates, most notably the Euro, reported EBIT grew 49% for fiscal 2015 as a result of strong revenue growth, gross margin expansion and selling and administrative expense leverage. Gross margin increased 190 basis points, primarily due to favorable standard foreign currency exchange rates and higher full-price ASP, which were only partially offset by higher product costs. Selling and administrative expense decreased as a percent of revenues despite increases in operating overhead, primarily as a result of higher costs to support our growing DTC business. Demand creation increased largely as a result of higher sports marketing and digital demand creation costs.

Central & Eastern Europe

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change		% Change Excluding Currency Changes		Fiscal 2014	% Change		% Change Excluding Currency Changes	
Revenues by:											
Footwear	$882	$827	7	%	23	%	$763	8	%	22	%
Apparel	463	499	-7	%	9	%	532	-6	%	5	%
Equipment	86	95	-9	%	7	%	92	3	%	14	%
TOTAL REVENUES	$1,431	$1,421	1	%	17	%	$1,387	2	%	15	%
Revenues by:											
Sales to Wholesale Customers	$1,215	$1,241	-2	%	13	%	$1,245	0	%	11	%
Sales Direct to Consumer	216	180	20	%	46	%	142	27	%	48	%
TOTAL REVENUES	$1,431	$1,421	1	%	17	%	$1,387	2	%	15	%
EARNINGS BEFORE INTEREST AND TAXES	$289	$249	16	%			$279	-11	%		

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.

Fiscal 2015 Compared to Fiscal 2014

Excluding changes in currency exchange rates, Central & Eastern Europe revenues for fiscal 2015 grew 15%, attributable to increases in most territories. Turkey grew 23% and our distributors business grew 18%, while revenues declined in Israel, our smallest territory. On a category basis, revenue growth was driven by increases in most key categories, primarily Sportswear and Running. DTC revenues increased 48%, driven by strong comparable store sales

growth of 28%, the addition of new stores and online sales growth.
The constant currency growth in footwear revenue in fiscal 2015 was driven by growth in nearly all key categories, most notably Sportswear and Running. Fiscal 2015 unit sales of footwear increased 11%. Higher ASP per pair contributed approximately 11 percentage points of footwear revenue growth, driven by higher full-price ASP, primarily reflecting inflationary conditions in certain territories.
The constant currency growth in apparel revenue in fiscal 2015 resulted from growth in most key categories, led by Sportswear and Running, partially offset by a decline in Football (Soccer) due to comparison to strong sales related to the World Cup in fiscal 2014. Unit sales of apparel increased 1% for fiscal 2015. Higher ASP per unit contributed approximately 4 percentage points of apparel revenue growth, primarily due to higher full-price ASP reflecting inflationary conditions in certain territories.
On a reported basis, EBIT declined 11% for fiscal 2015, primarily reflecting the impact of weakening foreign currency exchange rates. Reported revenue increases and slight selling and administrative expense leverage were more than offset by lower gross margin. Gross margin decreased 340 basis points as higher product costs and unfavorable standard foreign currency exchange rates were only partially offset by higher full-price ASP. Selling and administrative expense decreased as a percent of revenue despite increases in both demand creation and operating overhead. Operating overhead increased primarily as a result of investments in our growing DTC business, while demand creation increased as a result of higher sports marketing costs.

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Greater China

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	% Change Excluding Currency Changes	Fiscal 2014	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$2,599	$2,016	29 %	33 %	$1,600	26 %	28 %
Apparel	1,055	925	14 %	17 %	876	6 %	7 %
Equipment	131	126	4 %	7 %	126	0 %	1 %
TOTAL REVENUES	$3,785	$3,067	23 %	27 %	$2,602	18 %	19 %
Revenues by:							
Sales to Wholesale Customers	$2,623	$2,234	17 %	21 %	$2,041	9 %	11 %
Sales Direct to Consumer	1,162	833	39 %	44 %	561	48 %	51 %
TOTAL REVENUES	$3,785	$3,067	23 %	27 %	$2,602	18 %	19 %
EARNINGS BEFORE INTEREST AND TAXES	$1,372	$993	38 %		$816	22 %	

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 online 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.

Fiscal 2015 Compared to Fiscal 2014

Excluding changes in currency exchange rates, Greater China revenue growth for fiscal 2015 was driven by higher revenues in our Sportswear, Running, NIKE Basketball and Jordan Brand categories, partially offset by small declines in other categories. Strong growth in DTC revenues reflected a 28% increase in comparable store sales, strong online sales growth and the addition of new stores.

Constant currency footwear revenue growth in fiscal 2015 was driven by increased sales in our Sportswear, Running, NIKE Basketball and Jordan Brand categories, partially offset by small declines in other categories. Unit sales of footwear increased 20% for fiscal 2015. Higher ASP per pair contributed approximately 8 percentage points of footwear revenue growth, primarily due to an increase in the proportion of revenues from our higher-priced DTC business.

Constant currency apparel revenue growth in fiscal 2015 was driven by increases in the Sportswear, Running, Jordan Brand and NIKE Basketball categories, partially offset by decreases in other categories, primarily Football (Soccer) and Men’s Training. For fiscal 2015, unit sales of apparel increased 8%. Changes in ASP per unit reduced apparel revenues by approximately 1 percentage point, due primarily to lower full-price ASP, partially offset by increased revenues from our higher-priced DTC business.

On a reported basis, EBIT increased 22% for fiscal 2015 as higher revenues and gross margin expansion more than offset higher selling and administrative expense. Gross margin increased 270 basis points primarily due to higher full-price ASP on footwear and an increase in the proportion of revenues from our higher-margin DTC business, partially offset by higher product costs. Selling and administrative expense increased due to higher operating overhead to support growth initiatives, primarily related to our DTC operations, as well as higher demand creation spending, primarily for sports marketing.

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Japan

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	% Change Excluding Currency Changes	Fiscal 2014	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$570	$452	26 %	34 %	$409	11 %	23 %
Apparel	228	230	-1 %	5 %	276	-17 %	-8 %
Equipment	71	73	-3 %	3 %	86	-15 %	-6 %
TOTAL REVENUES	$869	$755	15 %	22 %	$771	-2 %	9 %
Revenues by:							
Sales to Wholesale Customers	$587	$536	10 %	16 %	$597	-10 %	0 %
Sales Direct to Consumer	282	219	29 %	37 %	174	26 %	40 %
TOTAL REVENUES	$869	$755	15 %	22 %	$771	-2 %	9 %
EARNINGS BEFORE INTEREST AND TAXES	$174	$100	74 %		$131	-24 %	

Fiscal 2016 Compared to Fiscal 2015

Excluding changes in foreign currency exchange rates, 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 online 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.

Fiscal 2015 Compared to Fiscal 2014

Constant currency revenues for Japan increased 9% in fiscal 2015, driven primarily by increases in Sportswear, Running, the Jordan Brand and NIKE Basketball, partially offset by declines in Men's Training, Golf and Women's Training. DTC revenues grew 40% in fiscal 2015 driven by a 20% increase in comparable store sales, strong online sales growth and the addition of new stores.

On a reported basis, fiscal 2015 EBIT decreased 24% compared to the prior year period, reflecting the impact of the weaker Yen. Gross margin decreased 270 basis points as unfavorable standard foreign currency exchange rates and higher product costs more than offset higher full-price ASP and an increase in the proportion of revenues from our higher-margin DTC business. Selling and administrative expense increased as a percent of revenues as higher operating overhead, primarily to support our expanding DTC business, was only partially offset by a decrease in demand creation expense.

Emerging Markets

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	% Change Excluding Currency Changes	Fiscal 2014	% Change	% Change Excluding Currency Changes
Revenues by:							
Footwear	$2,536	$2,641	-4 %	14 %	$2,642	0 %	9 %
Apparel	947	1,021	-7 %	11 %	1,061	-4 %	5 %
Equipment	218	236	-8 %	11 %	246	-4 %	5 %
TOTAL REVENUES	$3,701	$3,898	-5 %	13 %	$3,949	-1 %	8 %
Revenues by:							
Sales to Wholesale Customers	$3,049	$3,247	-6 %	11 %	$3,483	-7 %	2 %

Sales Direct to Consumer	652	651	0	%	23	%	466	40	%	51	%
TOTAL REVENUES	$3,701	$3,898	-5	%	13	%	$3,949	-1	%	8	%
EARNINGS BEFORE INTEREST AND TAXES	$892	$818	9	%			$952	-14	%		

Fiscal 2016 Compared to Fiscal 2015

Excluding changes in foreign currency exchange rates, 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 online sales growth.

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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 operating infrastructure, and higher performance-based compensation 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.

Fiscal 2015 Compared to Fiscal 2014

On a currency-neutral basis, fiscal 2015 revenues for Emerging Markets increased 8%, driven by growth in 7 of 9 territories. Growth was led by SOCO and Pacific which grew 28% and 26%, respectively. Revenues in our Mexico and Brazil territories decreased 21% and 3%, respectively. The decrease in Mexico was attributable to efforts to liquidate excess inventory in the marketplace largely resulting from an inconsistent flow of product to customers following distribution center transition issues in fiscal 2014, while the decrease in Brazil was primarily due to challenging macroeconomic conditions and comparison to strong sales related to the World Cup in fiscal 2014. On a category basis, revenues were higher in most key categories, led by Sportswear, Running, Action Sports and the Jordan Brand, partially offset by a decline in Football (Soccer). DTC revenues increased 51% compared to fiscal 2014, driven by strong comparable store sales growth of 26%, the addition of new stores and online sales growth.

The constant currency growth in footwear revenue for fiscal 2015 was attributable to increases in several key categories, most notably Sportswear, Action Sports, the Jordan Brand and Running. Unit sales of footwear decreased 2% while higher ASP per pair contributed approximately 11 percentage points of footwear revenue growth. Higher ASP per pair was primarily due to higher full-price ASP reflecting price increases in response to inflationary conditions in certain Latin American countries, particularly Argentina, as well as the favorable impact of growth in our higher-priced DTC business.

Constant currency apparel revenue growth was due to increases in nearly all key categories, primarily Sportswear, Running and Women's Training, partially offset by a decline in Football (Soccer) revenues due to higher World Cup sales in fiscal 2014. Unit sales of apparel decreased 1% for fiscal 2015. Higher ASP per unit contributed approximately 6 percentage points of apparel revenue growth, primarily attributable to an increase in the proportion of revenues from our higher-priced DTC business, and to a lesser extent, higher full-price ASP driven by price increases in response to inflationary conditions.

On a reported basis, EBIT decreased 14% primarily due to reported revenue declines, lower gross margin and higher selling and administrative expense, as well as the impact of weakening foreign currency exchange rates. Gross margin decreased 140 basis points due to unfavorable standard foreign currency exchange rates, higher inventory obsolescence and higher off-price mix, partially offset by higher full-price ASP. Selling and administrative expense increased due to higher operating overhead costs, primarily to support DTC growth, as well as higher demand creation expense, in part as a result of support for the World Cup in early fiscal 2015 and higher sports marketing expense.

Global Brand Divisions

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	% Change Excluding Currency Changes	Fiscal 2014	% Change	% Change Excluding Currency Changes
Revenues	$73	$115	-37 %	-30 %	$125	-8 %	-2 %
(Loss) Before Interest and Taxes	$(2,596)	$(2,267)	15 %		$(1,993)	14 %	

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 2016 Compared to Fiscal 2015

Global Brand Divisions' loss before interest and taxes increased $329 million 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 investments in operational infrastructure and consumer-focused digital capabilities, partially offset by lower performance-based compensation expenses. Demand creation expense increased due to higher advertising and digital brand marketing expenses.

Fiscal 2015 Compared to Fiscal 2014

Global Brand Divisions' loss before interest and taxes increased $274 million in fiscal 2015, primarily due to higher operating overhead reflecting continued investments in operational infrastructure, including digital capabilities, consumer engagement and supply chain initiatives, as well as higher performance-based compensation. Demand creation expense increased slightly due to support for the World Cup in the first quarter of fiscal 2015 and key brand and consumer events.

Converse

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	% Change Excluding Currency Changes	Fiscal 2014	% Change	% Change Excluding Currency Changes
Revenues	$1,955	$1,982	-1 %	2 %	$1,684	18 %	21 %
Earnings Before Interest and Taxes	$487	$517	-6 %		$496	4 %	

In territories we define as "direct distribution markets" Converse designs, markets and sells products directly to distributors, 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. 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 2016 Compared to Fiscal 2015

Excluding changes in foreign currency exchange rates, Converse revenues increased 2% for fiscal 2016. 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 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 investments in infrastructure to support growth.

Fiscal 2015 Compared to Fiscal 2014

Excluding changes in currency exchange rates, revenues for Converse increased 21% for fiscal 2015. Comparable direct distribution markets grew 14%, contributing 12 percentage points of total revenue growth for fiscal 2015. Comparable direct distribution market unit sales increased 12% and higher ASP per unit contributed approximately 2 percentage points of Converse comparable direct distribution market revenue growth. The United States market was the most significant contributor to the growth of comparable direct distribution markets due to volume increases with key wholesale customers and expansion of our DTC business. Conversion of markets from licensed to direct distribution contributed 8 percentage points of total Converse revenue growth for fiscal 2015, driven by conversion of several European markets, most significantly AGS (Austria, Germany and Switzerland). Revenues from comparable licensed markets increased 8% for fiscal 2015, contributing 1 percentage point of total Converse revenue growth.

EBIT for Converse increased 4% for fiscal 2015 as strong revenue growth was partially offset by lower gross margin and higher selling and administrative expense. Gross margin decreased 60 basis points primarily due to transitions of licensed markets to direct distribution markets. Selling and administrative expense increased for fiscal 2015, primarily due to higher operating overhead costs resulting from investments in infrastructure to support current and future growth, including market transitions, new systems and new headquarters, as well as higher intellectual property enforcement costs.

Corporate

(Dollars in millions)	Fiscal 2016	Fiscal 2015	% Change	Fiscal 2014	% Change
Revenues	$(86)	$(82)	—	$3	—

(Loss) Before Interest and Taxes	$(1,173)	$(1,097)	7 %	$(1,036)	6 %

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 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 Other (income) expense, net.

Fiscal 2015 Compared to Fiscal 2014

For fiscal 2015, Corporate's loss before interest and taxes increased $61 million primarily due to the following:

- a $203 million increase, primarily in corporate overhead expense related to corporate initiatives to support growth of the business as well as higher performance-based compensation;
- a $144 million beneficial change from net foreign currency losses to net foreign currency gains, reported as a component of Other (income) expense, net; and
- an approximate $2 million increase in foreign exchange losses 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 losses are reported as a component of consolidated gross margin.

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:

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

b. Other NIKE entities purchase product directly from third-party factories in U.S. Dollars. These purchases generate a foreign currency exposure for those NIKE entities with a functional currency other than the U.S. Dollar.

In both purchasing scenarios, a weaker U.S. Dollar 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 a portion of the remaining effect of exchange rate fluctuations on probable forecasted future cash flows, including certain product cost purchase exposures, non-functional currency denominated external sales and other costs described above. Generally, these are accounted for as cash flow hedges in accordance with the accounting standards for derivatives and hedging, except for hedges of the embedded derivatives component of the product cost exposures as discussed below.

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 the embedded derivative contracts discussed above are not formally designated as hedging instruments under the accounting standards for derivatives and hedging. 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 $1,985 million and $1,171 million for the years ended May 31, 2016 and 2015, respectively. The impact of foreign exchange rate fluctuations on the translation of our Income before income taxes was a detriment of approximately $449 million and $221 million for the years ended May 31, 2016 and 2015, 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 $423 million and $73 million on our Income before income taxes for the years ended May 31, 2016 and 2015, 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 the accounting standards for net investment hedges. There were no outstanding net investment hedges as of May 31, 2016 and 2015. There were no cash flows from net investment hedge settlements for the years ended May 31, 2016 and 2015.

Liquidity and Capital Resources

Cash Flow Activity

Cash provided by operations was $3,096 million for fiscal 2016 compared to $4,680 million for fiscal 2015. Our primary source of operating cash flow for fiscal 2016 was Net income of $3,760 million. Our fiscal 2016 change in working capital was a net cash outflow of $1,580 million as compared to a net cash inflow of $256 million for fiscal 2015. The change in working capital was primarily due to a net decrease in the amount of cash collateral received as a result of hedging activities (refer to the Credit Risk section of Note 16 — Risk Management and Derivatives for additional detail). For fiscal 2016, cash collateral received from counterparties declined $863 million as compared to an increase in collateral received from counterparties of $968 million for fiscal 2015.

Cash used by investing activities was $1,034 million for fiscal 2016, compared to a $175 million use of cash for fiscal 2015. The primary driver of the increase in Cash used by investing activities was the net change in short-term investments (including sales, maturities and purchases) from net sales/maturities to net purchases. In fiscal 2016, there were $57 million of net purchases of short-term investments compared to $935 million of net sales/maturities of short-term investments in the same period of fiscal 2015. Additions to property, plant and equipment were $1,143 million for fiscal 2016 as compared to $963 million for fiscal 2015. The increase in Additions to property, plant and equipment resulted from continued investments in infrastructure to support current and future growth, primarily relating to supply chain and corporate initiatives, as well as expansion of our DTC operations.

In fiscal 2017, we plan to continue investing in our infrastructure to support future growth, as well as expand our digital capabilities. We anticipate investing approximately 4% of revenue, a portion of which will be used for the continued expansion of our corporate facilities, new DTC stores and digital capabilities.

Cash used by financing activities was $2,671 million for fiscal 2016 compared to $2,790 million for fiscal 2015, a decrease of $119 million, as increases in share repurchases and dividends were more than offset by the receipt of $981 million in net proceeds from the issuance of long-term debt in October 2015.

In fiscal 2016, we purchased 55.4 million shares of NIKE’s Class B Common Stock for $3,238 million (an average price of $58.44). During the third quarter of fiscal 2016, we concluded the Company's four-year, $8 billion share repurchase program approved by our Board of Directors in September 2012. Under this program the Company purchased a total of 197.1 million shares at a cost of $8 billion (an average price of $40.58 per share). Following the completion of this program, the Company began purchases under a four-year, $12 billion program approved by our Board of Directors in November 2015. Of the total 55.4 million shares repurchased in fiscal 2016, 20.1 million shares were purchased under this new program at a cost of approximately $1,189 million (an average price of $59.21 per share). We continue to expect funding of share repurchases will come 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.

Capital Resources

On April 23, 2013, we filed a shelf registration statement (the "Shelf") with the SEC which permitted us to issue an unlimited amount of debt securities. On April 23, 2013, we issued $1.0 billion of senior notes with tranches maturing in 2023 and 2043. The 2023 senior notes were issued in an initial aggregate principal amount of $500 million at a 2.25% fixed, annual interest rate and will mature on May 1, 2023. The 2043 senior notes were issued in an initial aggregate principal amount of $500 million at a 3.625% fixed, annual interest rate and will mature on May 1, 2043. Interest on the senior notes is payable semi-annually on May 1 and November 1 of each year. The issuance resulted in gross proceeds before expenses of $998 million. On October 29, 2015, we issued an additional $1.0 billion of senior notes at a 3.875% fixed, annual interest rate that will mature on November 1, 2045. 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 $991 million. The Shelf expired on April 23, 2016. We plan to file a new shelf registration statement with the SEC in July 2016.

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. This facility replaces the prior $1 billion credit facility agreement entered into on November 1, 2011, which would have matured November 1, 2017. As of and for the periods ended May 31, 2016 and 2015, we had no amounts outstanding under either committed credit facility.

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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 rating were to improve, the facility fee and interest rate would decrease. Changes in our long-term debt rating 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, 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, 2016, we were in full compliance with each of these covenants and believe it is unlikely we will fail to meet any of these covenants in the foreseeable future.

Liquidity is also provided by our $2 billion commercial paper program, which increased $1 billion during the second quarter of fiscal 2016. During the year ended May 31, 2016, we did not issue commercial paper, and as of May 31, 2016, there were no outstanding borrowings under this program. Any future issuance of commercial paper or other debt securities during fiscal 2017 will depend 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, 2016, we had cash, cash equivalents and short-term investments totaling $5.5 billion, of which $4.6 billion was held by our foreign subsidiaries. Included in Cash and equivalents as of May 31, 2016 was $105 million of cash collateral received from counterparties as a result of hedging activity. 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, 2016, the weighted average remaining duration of our cash equivalents and short-term investments portfolio was 91 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.

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Contractual Obligations

Our significant long-term contractual obligations as of May 31, 2016 and significant endorsement contracts, including related marketing commitments, entered into through the date of this report are as follows:

Description of Commitment	Cash Payments Due During the Year Ending May 31,						
(In millions)	2017	2018	2019	2020	2021	Thereafter	Total
Operating Leases	$491	$453	$395	$347	$301	$ 1,244	$3,231
Capital Leases	7	5	2	1	—	—	15
Long-Term Debt(1)	115	75	74	74	71	3,365	3,774
Endorsement Contracts(2)	1,198	1,238	945	827	698	4,514	9,420
Product Purchase Obligations(3)	4,149	—	—	—	—	—	4,149
Other Purchase Obligations(4)	384	118	90	48	42	90	772
TOTAL	$6,344	$1,889	$1,506	$1,297	$1,112	$ 9,213	$21,361

(1) The cash payments due for long-term debt include estimated interest payments. Estimates of interest payments are based on outstanding principal amounts, applicable fixed interest rates or currently effective interest rates as of May 31, 2016 (if variable), timing of scheduled payments and the term of the debt obligations.

(2) The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, 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.

(3) 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 e-commerce operations. The amounts listed for product purchase obligations represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and that specify all significant terms. In some cases, prices are subject to change throughout the production process.

(4) Other purchase obligations primarily include service and marketing commitments, including marketing commitments associated with endorsement contracts, made in the ordinary course of business. The amounts represent the minimum payments required by legally binding contracts and agreements that specify all significant terms, including open purchase orders for non-product purchases.

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, 2016. 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, 2016

Notes payable, due at mutually agreed-upon dates within one year of issuance or on demand	$	1
Payable to Sojitz America for the purchase of inventories, generally due 60 days after shipment of goods from a foreign port	39	

As of May 31, 2016, the Company had letters of credit outstanding totaling $157 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.

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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. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Certain of these critical accounting policies affect working capital account balances, including the policies for revenue recognition, the allowance for uncollectible accounts receivable, inventory reserves and contingent payments under endorsement contracts. 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. 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 online store 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.

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.

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Property, Plant and Equipment and Definite-Lived Assets

Property, plant and equipment, including buildings, equipment and computer hardware and software are recorded at cost (including, in some cases, the cost of internal labor) and are depreciated over the estimated useful life. Changes in circumstances (such as technological advances or changes to our business operations) can result in differences between the actual and estimated useful lives. In those cases where we determine that the useful life of a long-lived asset should be shortened, we increase depreciation expense over the remaining useful life to depreciate the asset’s net book value to its salvage value.

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.

Goodwill and Indefinite-Lived Intangible Assets

We perform 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. We 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, we determine 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 requires us to estimate the fair value of our reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we measure and record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value, if any.

We generally base our measurement of the fair value of a reporting unit on a blended analysis of the present value of future discounted cash flows and the market valuation approach. The discounted cash flows model indicates the fair value of the reporting unit based on the present value of the cash flows that we expect the reporting unit to generate in the future. Our significant estimates in the discounted cash flows model include: our weighted average cost of capital; long-term rate of growth and profitability of the reporting unit's business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the reporting unit to comparable publicly traded companies in similar lines of business. Significant estimates in the market valuation approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment, and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting unit.

Indefinite-lived intangible assets primarily consist of acquired trade names and trademarks. We 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, we determine 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, we utilize 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 us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital.
Fair Value Measurements
For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine the fair values of our financial instruments. This pricing methodology applies to our Level 1 investments, including U.S. Treasury securities.
In the absence of active markets for identical assets or liabilities, such measurements involve developing assumptions based on market observable data, including 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. This pricing methodology applies to our Level 2 investments such as time deposits, commercial paper and bonds, U.S. Agency securities and money market funds.
Level 3 investments are valued using internally developed models with unobservable inputs. Assets and liabilities measured using unobservable inputs are an immaterial portion of our portfolio.
A majority of our available-for-sale securities are priced by pricing vendors and are generally Level 1 or Level 2 investments as 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. Our fair value processes include controls that are designed to ensure appropriate fair values are recorded. These controls include a comparison to another independent pricing vendor.

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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.

We have used in the past, and may use in the future, forward contracts or options to hedge our investment in the net assets of certain international subsidiaries to offset foreign currency translation related to our net investment in those subsidiaries. The change in fair value of the forward contracts or options hedging our net investments is reported in the cumulative translation adjustment component of Accumulated other comprehensive income within Total shareholders' equity, to the extent effective, to offset the foreign currency translation adjustments on those investments. As the value of our underlying net investments in wholly-owned international subsidiaries is known at the time a hedge is placed, the designated hedge is matched to the portion of our net investment at risk. Accordingly, the variability involved in net investment hedges is substantially less than that of other types of hedge transactions and we do not expect any material ineffectiveness. We consider, on a quarterly basis, the need to redesignate existing hedge relationships based on changes in the underlying net investment. Should the level of our net investment decrease below hedged levels, the cumulative change in fair value of the over-hedged portion of the related hedge contract would be reported as Other (income) expense, net during the period in which changes occur.

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. 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.

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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, including related legal costs, 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.

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, 2016 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. See section "Foreign Currency Exposures and Hedging Practices" under Item 7 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, fixed-rate debt of varying maturities and have entered into receive-fixed, pay-variable interest rate swaps for a portion of our fixed-rate debt, as well as pay-fixed, receive-variable forward-starting interest rate swaps for cash outflows of interest payments on future debt.

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 $109 million and $117 million at May 31, 2016 and 2015, respectively. The VaR decreased year-over-year as a result of a decrease in the total notional value of our foreign currency derivative portfolio at May 31, 2016. 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 $209 million and $205 million during fiscal 2016 and fiscal 2015, 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.
During the year ended May 31, 2016, we entered into a series of forward-starting interest rate swap agreements. A forward-starting interest rate swap is an agreement that effectively hedges the variability in future benchmark interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt. We entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on our forecasted issuance of debt. These instruments were designated as cash flow hedges of the variability in the expected cash outflows of interest payments on future debt due to changes in benchmark interest rates.
Details of third-party debt and interest rate swaps 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, 2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Foreign Exchange Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$6	$6	$6	$6	$3	$—	$27	$28
Average interest rate	2.4 %	2.4%	2.4%	2.4%	2.4%	0.0 %	2.4 %	
Interest Rate Risk								
Japanese Yen Functional Currency								
Long-term Japanese Yen debt — Fixed rate								
Principal payments	$6	$6	$6	$6	$3	$—	$27	$28
Average interest rate	2.4 %	2.4%	2.4%	2.4%	2.4%	0.0 %	2.4 %	
U.S. Dollar Functional Currency								
Long-term U.S. Dollar debt — Fixed rate								
Principal payments	$38	$—	$—	$—	$—	$2,000	$2,038	$2,097
Average interest rate	6.2 %	0.0%	0.0%	0.0%	0.0%	3.4 %	3.5 %	
Anticipated long-term U.S. Dollar debt issuance - Floating rate swapped to fixed rate								
Notional(1)	$1,500	$—	$—	$—	$—	$—	$1,500	$38
Weighted-average fixed rate	2.2 %	0.0%	0.0%	0.0%	0.0%	0.0 %	2.2 %	
Weighted-average floating rate	0.7 %	0.0%	0.0%	0.0%	0.0%	0.0 %	0.7 %	

(1) Forward-starting interest rate swaps have been included in the maturities category based on when the related forecasted debt issuance and corresponding swap terminations are expected to occur.

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 consisting of four outside 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, 2016.

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, 2016, 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 at May 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2016 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, 2016, 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 21, 2016

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NIKE, Inc. Consolidated Statements of Income

	Year Ended May 31,		
(In millions, except per share data)	2016	2015	2014
Revenues	$32,376	$30,601	$27,799
Cost of sales	17,405	16,534	15,353
Gross profit	14,971	14,067	12,446
Demand creation expense	3,278	3,213	3,031
Operating overhead expense	7,191	6,679	5,735
Total selling and administrative expense	10,469	9,892	8,766
Interest expense (income), net	19	28	33
Other (income) expense, net	(140)	(58)	103
Income before income taxes	4,623	4,205	3,544
Income tax expense	863	932	851
NET INCOME	$3,760	$3,273	$2,693
Earnings per common share:			
Basic	$2.21	$1.90	$1.52
Diluted	$2.16	$1.85	$1.49
Dividends declared per common share	$0.62	$0.54	$0.47

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, 2016	2015	2014
Net income	$3,760	$3,273	$2,693
Other comprehensive income (loss), net of tax:			
Change in net foreign currency translation adjustment[(1)]	(176)	(20)	(32)
Change in net gains (losses) on cash flow hedges[(2)]	(757)	1,188	(161)
Change in net gains (losses) on other[(3)]	5	(7)	4
Total other comprehensive income (loss), net of tax	(928)	1,161	(189)
TOTAL COMPREHENSIVE INCOME	$2,832	$4,434	$2,504

(1) Net of tax benefit (expense) of $0 million, $0 million and $0 million, respectively.
(2) Net of tax benefit (expense) of $35 million, $(31) million and $18 million, respectively.
(3) Net of tax benefit (expense) of $0 million, $0 million and $0 million, respectively.

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

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NIKE, Inc. Consolidated Balance Sheets

	May 31,	
(In millions)	2016	2015
ASSETS		
Current assets:		
Cash and equivalents	$3,138	$3,852
Short-term investments	2,319	2,072
Accounts receivable, net	3,241	3,358
Inventories	4,838	4,337
Prepaid expenses and other current assets	1,489	1,968
Total current assets	15,025	15,587
Property, plant and equipment, net	3,520	3,011
Identifiable intangible assets, net	281	281
Goodwill	131	131
Deferred income taxes and other assets	2,439	2,587
TOTAL ASSETS	$21,396	$21,597
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt	$44	$107
Notes payable	1	74
Accounts payable	2,191	2,131
Accrued liabilities	3,037	3,949
Income taxes payable	85	71
Total current liabilities	5,358	6,332
Long-term debt	2,010	1,079
Deferred income taxes and other liabilities	1,770	1,479
Commitments and contingencies		
Redeemable preferred stock	—	—
Shareholders’ equity:		
Common stock at stated value:		
Class A convertible — 353 and 355 shares outstanding	—	—
Class B — 1,329 and 1,357 shares outstanding	3	3
Capital in excess of stated value	7,786	6,773
Accumulated other comprehensive income	318	1,246
Retained earnings	4,151	4,685
Total shareholders’ equity	12,258	12,707
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$21,396	$21,597

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

	Year Ended May 31,		
(In millions)	2016	2015	2014
Cash provided by operations:			
Net income	$3,760	$3,273	$2,693
Income charges (credits) not affecting cash:			
Depreciation	649	606	518
Deferred income taxes	(80)	(113)	(11)
Stock-based compensation	236	191	177
Amortization and other	13	43	68
Net foreign currency adjustments	98	424	56
Changes in certain working capital components and other assets and liabilities:			
Decrease (increase) in accounts receivable	60	(216)	(298)
(Increase) in inventories	(590)	(621)	(505)
(Increase) in prepaid expenses and other current assets	(161)	(144)	(210)
(Decrease) increase in accounts payable, accrued liabilities and income taxes payable	(889)	1,237	525
Cash provided by operations	3,096	4,680	3,013
Cash used by investing activities:			
Purchases of short-term investments	(5,367)	(4,936)	(5,386)
Maturities of short-term investments	2,924	3,655	3,932
Sales of short-term investments	2,386	2,216	1,126
Investments in reverse repurchase agreements	150	(150)	—
Additions to property, plant and equipment	(1,143)	(963)	(880)
Disposals of property, plant and equipment	10	3	3
Decrease (increase) in other assets, net of other liabilities	6	—	(2)
Cash used by investing activities	(1,034)	(175)	(1,207)
Cash used by financing activities:			
Net proceeds from long-term debt issuance	981	—	—
Long-term debt payments, including current portion	(106)	(7)	(60)
(Decrease) increase in notes payable	(67)	(63)	75
Payments on capital lease obligations	(7)	(19)	(17)
Proceeds from exercise of stock options and other stock issuances	507	514	383
Excess tax benefits from share-based payment arrangements	281	218	132
Repurchase of common stock	(3,238)	(2,534)	(2,628)
Dividends — common and preferred	(1,022)	(899)	(799)
Cash used by financing activities	(2,671)	(2,790)	(2,914)
Effect of exchange rate changes on cash and equivalents	(105)	(83)	(9)
Net (decrease) increase in cash and equivalents	(714)	1,632	(1,117)
Cash and equivalents, beginning of year	3,852	2,220	3,337
CASH AND EQUIVALENTS, END OF YEAR	$3,138	$3,852	$2,220
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$70	$53	$53
Income taxes	748	1,262	856
Non-cash additions to property, plant and equipment	252	206	167
Dividends declared and not paid	271	240	209

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 Class A Shares	Common Stock Class A Amount	Common Stock Class B Shares	Common Stock Class B Amount	Capital in Excess of Stated Value	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at May 31, 2013	356	$ —	1,433	$ 3	$ 5,184	$ 274	$ 5,620	$ 11,081
Stock options exercised			22		445			445
Conversion to Class B Common Stock	(1)	—	1	—				—
Repurchase of Class B Common Stock			(73)		(11)		(2,617)	(2,628)
Dividends on common stock ($0.47 per share)							(821)	(821)
Issuance of shares to employees			3		78			78
Stock-based compensation					177			177
Forfeiture of shares from employees			(1)		(8)		(4)	(12)
Net income							2,693	2,693
Other comprehensive income (loss)						(189)		(189)
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)							(931)	(931)
Issuance of shares to employees			3		92			92
Stock-based compensation					191			191
Forfeiture of shares from employees			—		(5)		(3)	(8)
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)	—	2	—				—
Repurchase of Class B Common Stock			(55)		(8)		(3,230)	(3,238)
Dividends on common stock ($0.62 per share)							(1,053)	(1,053)
Issuance of shares to employees			3		115			115
Stock-based compensation					236			236
Forfeiture of shares from employees			—		(10)		(11)	(21)
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

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

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Notes to Consolidated Financial Statements

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NOTE 1 — Summary of Significant Accounting Policies

Description of Business
NIKE, Inc. is a worldwide leader in the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE, Inc. portfolio brands include the NIKE Brand, Jordan Brand, Hurley and Converse. The NIKE Brand is focused on performance athletic footwear, apparel, equipment, accessories and services across a wide range of sport categories, amplified with sport-inspired sportswear products carrying the Swoosh trademark as well as other NIKE Brand trademarks. The Jordan Brand is focused on athletic and casual footwear, apparel and accessories, using the Jumpman trademark. Sales of Jordan Brand products are reported as a separate category 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 of Hurley brand products are included within the NIKE Brand Action Sports category and within the NIKE Brand's North America geographic operating segment, respectively. 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 2016 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, 2016 and 2015, the Company's reserve balances for post-invoice sales discounts, returns and miscellaneous claims were $789 million and $724 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.
Operating Overhead Expense
Operating overhead expense consists primarily of payroll and benefit related costs, rent, depreciation and amortization, professional services and meetings and travel.
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 our 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.

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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 term.

Through cooperative advertising programs, the Company reimburses retail 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 $3,278 million, $3,213 million and $3,031 million for the years ended May 31, 2016, 2015 and 2014, respectively. Prepaid advertising and promotion expenses totaled $540 million and $455 million at May 31, 2016 and 2015, respectively, and were recorded in Prepaid expenses and other current assets and Deferred income taxes and other assets depending on the period to which the prepayment applies.

Cash and Equivalents

Cash and equivalents represent cash and short-term, highly liquid investments, 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, 2016 and 2015, the Company did not hold any short-term investments that were classified as trading or held-to-maturity.

At May 31, 2016 and 2015, 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 $43 million and $78 million at May 31, 2016 and 2015, respectively, of which $17 million and $24 million, respectively, was classified as long-term and recorded in Deferred income taxes and other assets.

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 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 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 10 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.

The Company generally bases its measurement of the fair value of a reporting unit on a blended analysis of the present value of future discounted cash flows and the market valuation approach. The discounted cash flows model indicates the fair value of the reporting unit based on the present value of the cash flows that the Company expects the reporting unit to generate in the future. The Company's significant estimates in the discounted cash flows model include: its weighted average cost of capital; long-term rate of growth and profitability of the reporting unit's business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the reporting unit to comparable publicly traded companies in similar lines of business. Significant estimates in the market valuation approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting unit.

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 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 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.

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Pricing vendors are utilized for certain 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.

The Company’s fair value processes include controls that are designed to ensure appropriate fair values are recorded. These controls include a comparison of fair values to another independent pricing vendor.

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 November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as non-current in a classified balance sheet. The Company elected to early adopt ASU 2015-17 on a retrospective basis in the fourth quarter of fiscal 2016. The adoption of this standard reduced Total current assets by $389 million, increased Deferred income taxes and other assets by $386 million and reduced Total current liabilities and Deferred income taxes and other liabilities by $2 million and $1 million, respectively, on the Consolidated Balance Sheet as of May 31, 2015.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update 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. Based on the FASB's decision in July 2015 to defer the effective date and to allow more flexibility with implementation, the new standard will be effective for the Company beginning June 1, 2018, with early application permitted. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method and is currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The 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 February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) that replaces existing lease 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 continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The standard is effective for the Company beginning June 1, 2019, with early application permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with optional practical expedients. The Company is currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for the Company beginning June 1, 2017, with early application permitted. The Company is currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

NOTE 2 — Inventories

Inventory balances of $4,838 million and $4,337 million at May 31, 2016 and 2015, respectively, were substantially all finished goods.

NOTE 3 — Property, Plant and Equipment

Property, plant and equipment, net included the following:

	As of May 31,	
(In millions)	2016	2015
Land	$286	$273
Buildings	1,467	1,250
Machinery, equipment and internal-use software	3,510	3,329

Leasehold improvements	1,338	1,150
Construction in process	437	350
Total property, plant and equipment, gross	7,038	6,352
Less accumulated depreciation	3,518	3,341
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	$3,520	$3,011

Capitalized interest was not material for the years ended May 31, 2016, 2015 and 2014.

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, 2016 and 2015. Acquired trademarks and other intangible assets at May 31, 2016 and 2015 were $16 million and $17 million, respectively, and were fully amortized at the end of both periods. Goodwill was $131 million at May 31, 2016 and 2015 of which $65 million was included in the Converse segment for 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.

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NOTE 5 — Accrued Liabilities

Accrued liabilities included the following:

	As of May 31,	
(In millions)	2016	2015
Compensation and benefits, excluding taxes	$943	$997
Endorsement compensation	393	388
Dividends payable	271	240
Import and logistics costs	198	207
Fair value of derivatives	162	162
Taxes other than income taxes payable	159	172
Advertising and marketing	119	117
Collateral received from counterparties to hedging instruments	105	968
Other[1]	687	698
TOTAL ACCRUED LIABILITIES	$3,037	$3,949

(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, 2016 and 2015.

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, 2016 and 2015, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. Refer to Note 1 — Summary of Significant Accounting Policies for additional detail regarding the Company's fair value measurement methodology.

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

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	As of May 31, 2015			
(In millions)	Assets at Fair Value	Cash Equivalents	Short-term Investments	Other Long-term Assets
Cash	$615	$ 615	$ —	$ —
Level 1:				
U.S. Treasury securities	869	225	644	—
Level 2:				
Time deposits	684	684	—	—
U.S. Agency securities	976	110	866	—
Commercial paper and bonds	914	352	562	—
Money market funds	1,866	1,866	—	—
Total level 2	4,440	3,012	1,428	—
Level 3:				
Non-marketable preferred stock	8	—	—	8
TOTAL	$5,932	$ 3,852	$ 2,072	$ 8

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). Cash collateral received 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 the accounting standards for non-cash collateral received.

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, 2016 and 2015, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

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

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

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

As of May 31, 2015

Derivative Assets | Derivative Liabilities

(In millions)	Assets at Fair Value	Other Current Assets	Other Long-term Assets	Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options(1)	$ 1,554	$ 1,034	$ 520	$ 164	$ 160	$ 4
Embedded derivatives	7	2	5	11	2	9
Interest rate swaps(2)	78	78	—	—	—	—
TOTAL	$ 1,639	$ 1,114	$ 525	$ 175	$ 162	$ 13

(1) If the foreign exchange derivative instruments had been netted in the Consolidated Balance Sheets, the asset and liability positions each would have been reduced by $161 million as of May 31, 2015. As of that date, the Company had received $900 million of cash collateral and $74 million of securities 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, 2015.

(2) As of May 31, 2015, the Company had received $68 million of cash collateral related to its interest rate swaps.

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Available-for-sale securities comprise investments in U.S. Treasury and Agency securities, 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, 2016, the Company held $2,113 million of available-for-sale securities with maturity dates within one year and $206 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, 2016 and 2015. Unrealized gains and losses on available-for-sale securities included in Other comprehensive income were immaterial as of May 31, 2016 and 2015. The Company regularly reviews its available-for-sale securities for other-than-temporary impairment. For the years ended May 31, 2016 and 2015, 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 $12 million, $6 million and $5 million for the years ended May 31, 2016, 2015 and 2014, 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, 2016 and 2015.

No transfers among the levels within the fair value hierarchy occurred during the years ended May 31, 2016 or 2015.

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.

As of May 31, 2016 and May 31, 2015, assets or liabilities that were required to be measured at fair value on a non-recurring basis were immaterial.

At May 31, 2015, the Company had $150 million of outstanding receivables related to its investments in reverse repurchase agreements recorded within Prepaid expenses and other current assets on the Consolidated Balance Sheets. The carrying amount of these agreements approximates their fair value based upon observable inputs other than quoted prices (Level 2). The reverse repurchase agreements are fully collateralized. At May 31, 2016, there were no outstanding receivables related to investments in reverse repurchase agreements.

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, 2016 and 2015 are summarized below:

	As of May 31,			
	2016		2015	
(Dollars in millions)	Borrowings	Interest Rate	Borrowings	Interest Rate
Notes payable:				
U.S. operations	$—	0.00 % (1)	$—	0.00 % (1)
Non-U.S. operations	1	13.00 % (1)	74	12.39 % (1)
TOTAL NOTES PAYABLE	$1		$74	
Interest-bearing accounts payable:				
Sojitz America	$39	1.27 %	$78	0.98 %

(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, 2016 and 2015, the Company had no amounts outstanding under its $2 billion commercial paper program.

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, 2016. This facility replaces the prior $1 billion credit facility agreement entered into on November 1, 2011, which would have matured November 1, 2017. No amounts were outstanding under either committed credit facility as of May 31, 2016 or 2015.

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NOTE 8 — Long-Term Debt

Long-term debt, net of unamortized premiums and discounts and swap fair value adjustments, comprises the following:

Scheduled Maturity (Dollars and Yen in millions)	Original Principal	Interest Rate	Interest Payments	Book Value Outstanding As of May 31, 2016	2015
Corporate Bond Payables:[1]					
October 15, 2015[2]	$ 100	5.15 %	Semi-Annually	$ —	$ 101
May 1, 2023[3]	$ 500	2.25 %	Semi-Annually	499	499
May 1, 2043[3]	$ 500	3.63 %	Semi-Annually	499	499
November 1, 2045[4]	$ 1,000	3.88 %	Semi-Annually	991	—
Promissory Notes:					
April 1, 2017[5]	$ 40	6.20 %	Monthly	38	39
January 1, 2018[5]	$ 19	6.79 %	Monthly	—	19
Japanese Yen Notes:					
August 20, 2001 through November 20, 2020[6]	¥ 9,000	2.60 %	Quarterly	18	20
August 20, 2001 through November 20, 2020[6]	¥ 4,000	2.00 %	Quarterly	9	9
Total				2,054	1,186
Less current maturities				44	107
TOTAL LONG-TERM DEBT				$ 2,010	$ 1,079

(1) These senior unsecured obligations rank equally with the Company's other unsecured and unsubordinated indebtedness.

(2) The Company has entered into interest rate swap agreements whereby the Company receives fixed interest payments at the same rate as the note and pays variable interest payments based on the six-month LIBOR plus a spread. The swaps have the same notional amount and maturity date as the corresponding note. 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, 2016, the Company had no interest rate swaps designated as fair value hedges.

(3) The bonds are redeemable at the Company's option prior to February 1, 2023 and November 1, 2042, respectively, at a price equal to the greater of (i) 100% of the aggregate principal amount of the notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments, plus in each case, accrued and unpaid interest. Subsequent to February 1, 2023 and November 1, 2042, 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.

(4) The bonds are redeemable at the Company's option prior to May 1, 2045, at a price equal to the greater of (i) 100% of the aggregate principal amount of the notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments, plus in each case, accrued and unpaid interest. Subsequent to May 1, 2045, 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.

(5) The Company assumed a total of $59 million in bonds payable as part of its agreement to purchase certain Corporate properties; this was treated as a non-cash financing transaction. The property serves as collateral for the debt. The purchase of these properties was accounted for as a business combination where the total consideration of $85 million was allocated to the land and buildings acquired; no other tangible or intangible assets or liabilities resulted from the purchase. The bonds mature in 2017 and 2018 and the Company does not have the ability to re-negotiate the terms of the debt agreements and would incur significant financial penalties if the notes were paid-off prior to maturity. During the year ended May 31, 2016, the notes due January 1, 2018 were legally defeased and an insignificant loss on defeasance was recognized.

(6) NIKE Logistics YK assumed a total of ¥13.0 billion in loans as part of its agreement to purchase a distribution center in Japan, which serves as collateral for the loans. These loans mature in equal quarterly installments during

the period August 20, 2001 through November 20, 2020.

The scheduled maturity of Long-term debt in each of the years ending May 31, 2017 through 2021 are $44 million, $6 million, $6 million, $6 million and $3 million, respectively, at face value.

The Company's Long-term debt is recorded at adjusted cost, net of unamortized premiums and discounts and interest rate swap fair value adjustments. 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 $2,125 million at May 31, 2016 and $1,160 million at May 31, 2015.

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NOTE 9 — Income Taxes

Income before income taxes is as follows:

	Year Ended May 31,		
(In millions)	2016	2015	2014
Income before income taxes:			
United States	$956	$1,967	$3,066
Foreign	3,667	2,238	478
TOTAL INCOME BEFORE INCOME TAXES	$4,623	$4,205	$3,544

The provision for income taxes is as follows:

	Year Ended May 31,		
(In millions)	2016	2015	2014
Current:			
United States			
Federal	$304	$596	$259
State	71	80	104
Foreign	568	369	499
Total	943	1,045	862
Deferred:			
United States			
Federal	(57)	(66)	19
State	(16)	(11)	(3)
Foreign	(7)	(36)	(27)
Total	(80)	(113)	(11)
TOTAL INCOME TAX EXPENSE	$863	$932	$851

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

	Year Ended May 31,		
	2016	2015	2014
Federal income tax rate	35.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	1.1 %	0.9 %	1.8 %
Foreign earnings	-18.6 %	-15.7 %	2.2 %
Deferred charge	0.4 %	0.9 %	-14.6 %
Other, net	0.8 %	1.1 %	-0.4 %
EFFECTIVE INCOME TAX RATE	18.7 %	22.2 %	24.0 %

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.

The effective tax rate for the year ended May 31, 2015 was 180 basis points lower than the effective tax rate for the year ended May 31, 2014 primarily due to the favorable resolution of audits in several jurisdictions.

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Deferred tax assets and liabilities comprise the following:

(In millions)	As of May 31, 2016	2015
Deferred tax assets:		
Allowance for doubtful accounts	$5	$11
Inventories	88	59
Sales return reserves	182	143
Deferred compensation	274	258
Stock-based compensation	206	179
Reserves and accrued liabilities	78	92
Net operating loss carry-forwards	44	10
Undistributed earnings of foreign subsidiaries	179	149
Other	72	76
Total deferred tax assets	1,128	977
Valuation allowance	(52)	(9)
Total deferred tax assets after valuation allowance	1,076	968
Deferred tax liabilities:		
Property, plant and equipment	(268)	(220)
Intangibles	(92)	(93)
Other	(4)	(38)
Total deferred tax liability	(364)	(351)
NET DEFERRED TAX ASSET	$712	$617

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

(In millions)	As of May 31, 2016	2015	2014
Unrecognized tax benefits, beginning of the period	$438	$506	$447
Gross increases related to prior period tax positions[1]	49	32	814
Gross decreases related to prior period tax positions[1]	(20)	(123)	(166)
Gross increases related to current period tax positions	81	82	125
Gross decreases related to current period tax positions	—	(9)	(30)
Settlements[1]	(13)	(27)	(676)
Lapse of statute of limitations	(17)	(10)	(4)
Changes due to currency translation	(12)	(13)	(4)
UNRECOGNIZED TAX BENEFITS, END OF THE PERIOD	$506	$438	$506

(1) During the fourth quarter of the fiscal year ended May 31, 2014, the Company reached a resolution with the IRS on a U.S. Unilateral Advanced Pricing Agreement that covers intercompany transfer pricing for fiscal years 2011 through 2020. As a result, the Company recorded a gross increase in unrecognized tax benefits related to prior period tax positions, a gross decrease in unrecognized tax benefits related to prior period tax positions and a settlement. The net impact of these items resulted in a decrease to unrecognized tax benefits.

As of May 31, 2016, total gross unrecognized tax benefits, excluding related interest and penalties, were $506 million, $290 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 increased by $45 million during the year ended May 31, 2016, decreased by $3 million during the year ended May 31, 2015 and increased by $55 million during the year ended May 31, 2014. As of May 31, 2016 and 2015, accrued interest and penalties related to uncertain tax positions were $209 million and $164 million, respectively (excluding federal benefit).

The Company incurs tax liabilities primarily in the United States, China and the Netherlands, as well as various state and other foreign jurisdictions. The Company is currently under audit by the U.S. Internal Revenue Service (“IRS”) for fiscal years 2013 through 2015. The Company has closed all U.S. federal income tax matters through fiscal 2012, with the exception of the validation of foreign tax credits utilized. During the year ended May 31, 2016, the Company received from the IRS a statutory notice of deficiency for fiscal 2012, proposing an increase in tax of $223 million, subject to interest, related to the foreign tax credit matter. The Company intends to contest this deficiency notice. As previously disclosed, the Company received a statutory notice of deficiency for fiscal 2011, proposing an increase in tax of $31 million, subject to interest, related to the foreign tax credit matter. This notice also reported a decrease in foreign tax credit carryovers for fiscal 2010 and 2011. The Company has contested this deficiency notice by filing a petition with the U.S Tax Court in April 2015. The Company does not expect the outcome of this matter to have a material impact on the financial statements. No payments on the assessment would be required until the dispute is definitively resolved. Based on the information currently available, the Company does not anticipate a significant increase or decrease to its unrecognized tax benefits for this matter within the next 12 months.

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The Company’s major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar 2005 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 $92 million within the next 12 months.

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, 2016, the indefinitely reinvested earnings in foreign subsidiaries upon which United States income taxes have not been provided were approximately $10.7 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 $3.6 billion at May 31, 2016.

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 impact of this tax holiday decreased foreign taxes by $173 million, $174 million and $138 million for the fiscal years ended May 31, 2016, 2015 and 2014, respectively. The benefit of the tax holiday on diluted earnings per common share was $0.10, $0.10 and $0.08 for the fiscal years ended May 31, 2016, 2015 and 2014, respectively.

Deferred tax assets at May 31, 2016 and 2015 were reduced by a valuation allowance relating to tax benefits of certain subsidiaries with operating losses. There was a $43 million net increase in the valuation allowance for the year ended May 31, 2016, compared to no net change and a net increase of $4 million for the years ended May 31, 2015 and 2014, respectively.

The Company has available domestic and foreign loss carry-forwards of $143 million at May 31, 2016. Such losses will expire as follows:

	Year Ending May 31,						
(In millions)	2017	2018	2019	2020	2021-2035	Indefinite	Total
Net operating losses	$1	$ 4	$ 1	$ 1	$ 35	$ 101	$143

During the years ended May 31, 2016, 2015 and 2014, income tax benefits attributable to employee stock-based compensation transactions of $281 million, $224 million and $135 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, 2016, 2015 and 2014. 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 Class A and Class B common shareholders.

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:

	Year Ended May 31,		
(In millions)	2016	2015	2014
Stock options[1]	$171	$136	$125
ESPPs	31	24	22
Restricted stock	34	31	30
TOTAL STOCK-BASED COMPENSATION EXPENSE	$236	$191	$177

(1) 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 for the years ended May 31, 2016, 2015 and 2014 was $30 million, $19 million and $15 million, respectively.

As of May 31, 2016, the Company had $245 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in Operating overhead expense over a weighted average period of 2.0 years.

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The weighted average fair value per share of the options granted during the years ended May 31, 2016, 2015 and 2014, as computed using the Black-Scholes pricing model, was $12.66, $8.48 and $7.45, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Year Ended May 31,		
	2016	2015	2014
Dividend yield	1.0 %	1.2 %	1.3 %
Expected volatility	23.6%	23.6%	27.9%
Weighted average expected life (in years)	5.8	5.8	5.3
Risk-free interest rate	1.7 %	1.7 %	1.3 %

The Company estimates the expected volatility based on the implied volatility in market traded options on the Company's common stock with a term greater than 1 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, 2013	135.3	$ 17.36
Exercised	(22.0)	14.15
Forfeited	(2.5)	24.17
Granted	16.3	31.77
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
Options exercisable at May 31,		
2014	74.0	$ 15.71
2015	68.6	18.26
2016	66.5	21.48

(1) Includes stock appreciation rights transactions.

The weighted average contractual life remaining for options outstanding and options exercisable at May 31, 2016 was 6.0 years and 4.6 years, respectively. The aggregate intrinsic value for options outstanding and exercisable at May 31, 2016 was $2,806 million and $2,242 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, 2016, 2015 and 2014 was $946 million, $795 million and $474 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"). Employees are eligible to participate through payroll deductions of up to 10% of their compensation. At the end of each 6-month offering period, shares are purchased by the participants at 85% of the lower of the fair market value at the beginning or the end of the offering period. Employees purchased 2.5 million, 2.7 million and 2.8 million shares during each of the three years ended May 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014 were 1 million, 0.5 million and 0.6 million, respectively, with weighted average values per share of $54.87, $39.69 and $31.94, 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, 2016, 2015 and 2014, the aggregate fair value of restricted stock and restricted stock units vested was $49 million, $20 million and $28 million, respectively, determined as of the date of vesting. As of May 31, 2016, the Company had $62 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 2.8 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 (“ESPPs”), to purchase an additional 0.2 million, 1.7 million and 1.5 million shares of common stock outstanding for the years ended May 31, 2016, 2015 and 2014, respectively, because the options were anti-dilutive.

	Year Ended May 31,		
(In millions, except per share data)	2016	2015	2014
Determination of shares:			
Weighted average common shares outstanding	1,697.9	1,723.5	1,766.7
Assumed conversion of dilutive stock options and awards	44.6	45.3	44.9
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	1,742.5	1,768.8	1,811.6
Earnings per common share:			
Basic	$2.21	$ 1.90	$ 1.52
Diluted	$2.16	$ 1.85	$ 1.49

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 $72 million, $58 million and $51 million and included in Operating overhead expense for the years ended May 31, 2016, 2015 and 2014, 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 $64 million, $58 million and $49 million were made to the plan and included in Operating overhead expense for the years ended May 31, 2016, 2015 and 2014, 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 in fiscal 2007. The Company recognized $85 million, $68 million and $46 million of Operating overhead expense related to cash awards under the LTIP during the years ended May 31, 2016, 2015 and 2014, 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 $475 million and $443 million at May 31, 2016 and 2015, 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 $93 million and $98 million at May 31, 2016 and 2015, 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][2]	Cash Flow Hedges	Net Investment Hedges[1][2]	Other	Total
Balance at May 31, 2015	$ (31)	$1,220	$ 115	$(58)	$1,246
Other comprehensive gains (losses) before reclassifications[3]	(178)	(47)	—	6	(219)
Reclassifications to net income of previously deferred (gains) losses[4]	2	(710)	—	(1)	(709)
Other comprehensive income (loss)	(176)	(757)	—	5	(928)
Balance at May 31, 2016	$ (207)	$463	$ 115	$(53)	$318

(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) Beginning balances have been updated to reflect the proper classification of $20 million of deferred tax balances between Foreign Currency Translation Adjustment and Net Investment Hedges.

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

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

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(In millions)	Foreign Currency Translation Adjustment[1][2]	Cash Flow Hedges	Net Investment Hedges[1][2]	Other	Total
Balance at May 31, 2014	$ (11)	$32	$ 115	$(51)	$85
Other comprehensive gains (losses) before reclassifications[3]	(20)	1,447	—	33	1,460
Reclassifications to net income of previously deferred (gains) losses[4]	—	(259)	—	(40)	(299)
Other comprehensive income (loss)	(20)	1,188	—	(7)	1,161
Balance at May 31, 2015	$ (31)	$1,220	$ 115	$(58)	$1,246

(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) Beginning and ending balances have been updated to reflect the proper classification of $20 million of deferred tax balances between Foreign Currency Translation Adjustment and Net Investment Hedges.

(3) Net of tax benefit (expense) of $0 million, $(33) million, $0 million, $0 million and $(33) million, respectively.

(4) Net of tax (benefit) expense of $0 million, $2 million, $0 million, $0 million and $2 million, respectively.

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

	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income
	Year Ended May 31,		
(In millions)	2016	2015	
Gains (losses) on foreign currency translation adjustment	$ (2)	$ —	Other (income) expense, net
Total before tax	(2)	—	
Tax (expense) benefit	—	—	
Gain (loss) net of tax	(2)	—	
Gains (losses) on cash flow hedges:			
Foreign exchange forwards and options	(88)	(95)	Revenues
Foreign exchange forwards and options	586	220	Cost of sales
Foreign exchange forwards and options	—	—	Total selling and administrative expense
Foreign exchange forwards and options	219	136	Other (income) expense, net
Total before tax	717	261	
Tax (expense) benefit	(7		