NIKE INC
Form 10-Q
October 07, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended August 31, 2013
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number-001-10635

NIKE, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (503) 671-6453
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
Shares of Common Stock outstanding as of October 2, 2013 were:

Class A	177,957,876
Class B	711,597,241
	889,555,117

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PART I - FINANCIAL INFORMATION–
ITEM 1. Financial Statements
NIKE, Inc. Unaudited Condensed Consolidated Balance Sheets

(In millions)	August 31, 2013	May 31, 2013
ASSETS		
Current assets:		
Cash and equivalents	$2,936	$3,337
Short-term investments (Note 5)	2,642	2,628
Accounts receivable, net	3,207	3,117
Inventories (Note 2)	3,472	3,434
Deferred income taxes (Note 6)	308	308
Prepaid expenses and other current assets (Notes 5 and 9)	1,053	802
Total current assets	13,618	13,626
Property, plant and equipment, net	2,557	2,452
Identifiable intangible assets, net (Note 3)	383	382
Goodwill (Note 3)	131	131
Deferred income taxes and other assets (Notes 5, 6, and 9)	985	993
TOTAL ASSETS	$17,674	$17,584
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	$57	$57
Notes payable (Note 5)	111	121
Accounts payable	1,559	1,646
Accrued liabilities (Notes 4, 5, and 9)	1,913	1,986
Income taxes payable (Note 6)	211	98
Liabilities of discontinued operations (Note 11)	12	18
Total current liabilities	3,863	3,926
Long-term debt (Note 5)	1,207	1,210
Deferred income taxes and other liabilities (Notes 5, 6, and 9)	1,322	1,292
Commitments and contingencies (Note 13)	—	—
Redeemable Preferred Stock	—	—
Shareholders' equity:		
Common stock at stated value		
Class A convertible — 178 and 178 shares outstanding	—	—
Class B — 711 and 716 shares outstanding	3	3
Capital in excess of stated value	5,340	5,184
Accumulated other comprehensive income (Note 10)	177	274
Retained earnings	5,762	5,695
Total shareholders' equity	11,282	11,156
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$17,674	$17,584

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of this statement.

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NIKE, Inc. Unaudited Condensed Consolidated Statements of Income

	Three Months Ended August 31,	
(In millions, except per share data)	2013	2012
Income from continuing operations:		
Revenues	$6,971	$6,474
Cost of sales	3,839	3,646
Gross profit	3,132	2,828
Demand creation expense	731	871
Operating overhead expense	1,325	1,188
Total selling and administrative expense	2,056	2,059
Interest expense (income), net	8	(3)
Other expense (income), net	28	(28)
Income before income taxes	1,040	800
Income tax expense (Note 6)	260	215
NET INCOME FROM CONTINUING OPERATIONS	780	585
NET (LOSS) FROM DISCONTINUED OPERATIONS	—	(18)
NET INCOME	$780	$567
Earnings per share from continuing operations:		
Basic earnings per common share	$0.88	$0.65
Diluted earnings per common share	$0.86	$0.63
Earnings per share from discontinued operations:		
Basic earnings per common share	$—	$(0.03)
Diluted earnings per common share	$—	$(0.02)
Dividends declared per common share	$0.21	$0.18

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of this statement.

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NIKE, Inc. Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended August 31,	
(In millions)	2013	2012
Net income	$780	$567
Other comprehensive income (loss), net of tax:		
Change in net foreign currency translation adjustment	(31)	25
Change in net gains (losses) on cash flow hedges	(65)	(62)
Change in net gains (losses) on other	(1)	(1)
Total other comprehensive income, net of tax	(97)	(38)
TOTAL COMPREHENSIVE INCOME	$683	$529

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of this statement.

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NIKE, Inc. Unaudited Condensed Consolidated Statements of Cash Flows

(In millions)	Three Months Ended August 31, 2013	2012
Cash provided by operations:		
Net income	$780	$567
Income charges (credits) not affecting cash:		
Depreciation	122	104
Deferred income taxes	24	(17)
Stock-based compensation (Note 7)	42	37
Amortization and other	31	33
Changes in certain working capital components and other assets and liabilities:		
(Increase) in accounts receivable	(102)	(123)
(Increase) in inventories	(63)	(17)
(Increase) in prepaid expenses and other current assets	(102)	(63)
(Decrease) increase in accounts payable, accrued liabilities and income taxes	(135)	14
Cash provided by operations	597	535
Cash (used) provided by investing activities:		
Purchases of short-term investments	(1,328)	(654)
Maturities of short-term investments	818	324
Sales of short-term investments	436	663
Investments in reverse repurchase agreements	(100)	—
Additions to property, plant and equipment	(215)	(107)
Disposals of property, plant and equipment	1	—
Increase in other assets, net of other liabilities	(4)	(5)
Cash (used) provided by investing activities	(392)	221
Cash used by financing activities:		
Long-term debt payments, including current portion	(2)	(42)
(Decrease) increase in notes payable	(3)	19
Proceeds from exercise of stock options and other stock issuances	94	39
Excess tax benefits from share-based payment arrangements	27	8
Repurchase of common stock	(526)	(766)
Dividends — common and preferred	(188)	(165)
Cash used by financing activities	(598)	(907)
Effect of exchange rate changes	(8)	(1)
Net (decrease) in cash and equivalents	(401)	(152)
Cash and equivalents, beginning of period	3,337	2,317
CASH AND EQUIVALENTS, END OF PERIOD	$2,936	$2,165
Supplemental disclosure of cash flow information:		
Dividends declared and not paid	$187	$162

The accompanying notes to the unaudited condensed consolidated financial statements are an integral part of this statement.

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Notes to the Unaudited Condensed Consolidated Financial Statements

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NOTE 1 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect all normal adjustments which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end condensed consolidated balance sheet data as of May 31, 2013 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the three months ended August 31, 2013 are not necessarily indicative of results to be expected for the entire year.

The Company completed the sale of Cole Haan during the third quarter ended February 28, 2013 and completed the sale of Umbro during the second quarter ended November 30, 2012. As a result, the Company reports the operating results of Cole Haan and Umbro in the net (loss) from discontinued operations line in the unaudited condensed consolidated statements of income for all periods presented. In addition, the liabilities associated with these businesses are reported as liabilities of discontinued operations, as appropriate, in the unaudited condensed consolidated balance sheets (refer to Note 11 — Discontinued Operations). Unless otherwise indicated, the disclosures accompanying the unaudited condensed consolidated financial statements reflect the Company's continuing operations.

On November 15, 2012, the Company announced a two-for-one split of both NIKE Class A and Class B Common shares. The stock split was a 100 percent stock dividend payable on December 24, 2012 to shareholders of record at the close of business December 10, 2012. Common stock began trading at the split-adjusted price on December 26, 2012. All share numbers and per share amounts presented reflect the stock split.

Recently Adopted Accounting Standards

In July 2013, the FASB issued an accounting standards update intended to provide guidance on the presentation of unrecognized tax benefits, reflecting the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This accounting standard will be effective for the Company beginning June 1, 2014; early adoption is permitted. The Company has early adopted this guidance and the adoption did not have a material impact on the Company's consolidated financial position or results of operations.

In July 2012, the FASB issued an accounting standards update intended to simplify how an entity tests indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This accounting standard update was effective for the Company beginning June 1, 2013. The adoption did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance required companies to present reclassification adjustments out of accumulated other comprehensive income by component in either the statement in which net income is presented or as a separate disclosure in the notes to the financial statements. This requirement was effective for the Company beginning June 1, 2013. As this guidance only amends the presentation of the components of comprehensive income the adoption did not have an impact on the Company's consolidated financial position or results of operations.

In December 2011, the FASB issued guidance enhancing disclosure requirements surrounding the nature of an entity's right to offset related arrangements associated with its financial instruments and derivative instruments. This new guidance requires companies to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to master netting arrangements. This new guidance was effective for the Company beginning June 1, 2013. As this guidance only requires expanded disclosures, the adoption did not have an impact on the Company's consolidated financial position or results of operations.

NOTE 2 — Inventories

Inventory balances of $3,472 million and $3,434 million at August 31, 2013 and May 31, 2013, respectively, were substantially all finished goods.

NOTE 3 — Identifiable Intangible Assets and Goodwill

The following table summarizes the Company’s identifiable intangible asset balances as of August 31, 2013 and May 31, 2013:

(In millions)	As of August 31, 2013			As of May 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Patents	$123	$(36)	$87	$119	$(35)	$84
Trademarks	44	(34)	10	43	(32)	11
Other	19	(16)	3	20	(16)	4
TOTAL	$186	$(86)	$100	$182	$(83)	$99
Unamortized intangible assets — Trademarks			283			283
IDENTIFIABLE INTANGIBLE ASSETS, NET			$383			$382

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Amortization expense, which is included in selling and administrative expense, was $4 million for each of the three month periods ended August 31, 2013 and 2012, respectively. The estimated amortization expense for intangible assets subject to amortization for the remainder of fiscal year 2014 and each of the years ending May 31, 2015 through May 31, 2018 are as follows: remainder of 2014: $10 million; 2015: $10 million; 2016: $9 million; 2017: $8 million; 2018: $7 million.
Goodwill was $131 million at August 31, 2013 and May 31, 2013, respectively; $64 million is included in the Converse segment and the remaining amounts are included in Global Brand Divisions for segment reporting purposes. There were no accumulated impairment balances for goodwill as of either period end.

NOTE 4 — Accrued Liabilities
Accrued liabilities included the following:

	As of August 31,	As of May 31,
(In millions)	2013	2013
Compensation and benefits, excluding taxes	$506	$713
Endorsement compensation	314	264
Taxes other than income taxes	211	192
Dividends payable	187	188
Advertising and marketing	117	77
Import and logistics costs	107	111
Fair value of derivatives	33	34
Other[1]	438	407
TOTAL ACCRUED LIABILITIES	$1,913	$1,986

(1) Other consists of various accrued expenses with no individual item accounting for more than 5% of the balance at August 31, 2013 and May 31, 2013.

NOTE 5 — 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 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: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs for which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Financial assets and liabilities are classified in their entirety based on the most conservative level of input that is significant to the fair value measurement.
Pricing vendors are utilized for 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 Company's fair value processes include controls that are designed to ensure appropriate fair values are recorded. These controls include an analysis of period-over-period fluctuations and comparison to another independent pricing vendor.

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The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of August 31, 2013 and May 31, 2013, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	As of August 31, 2013					
	Fair Value Measurements Using			Assets/Liabilities at Fair		
(In millions)	Level 1	Level 2	Level 3	Value		Balance Sheet Classification
ASSETS						
Derivatives:						
Foreign exchange forwards and options	$—	$200	$—	$ 200	(1)	Other current assets and other long-term assets
Interest rate swap contracts	—	9	—	9		Other current assets and other long-term assets
Total derivatives	—	209	—	209		
Available-for-sale securities:						
U.S. Treasury securities	601	—	—	601		Cash and equivalents
Commercial paper and bonds	—	559	—	559		Cash and equivalents
Money market funds	—	858	—	858		Cash and equivalents
U.S. Treasury securities	1,305	—	—	1,305		Short-term investments
U.S. Agency securities	—	392	—	392		Short-term investments
Commercial paper and bonds	—	945	—	945		Short-term investments
Non-marketable preferred stock	—	—	6	6		Other long-term assets
Total available-for-sale securities	1,906	2,754	6	4,666		
TOTAL ASSETS	$1,906	$2,963	$6	$ 4,875		
LIABILITIES						
Derivatives:						
Foreign exchange forwards and options	$—	$33	$—	$ 33	(1)	Accrued liabilities and other long-term liabilities
TOTAL LIABILITIES	$—	$33	$—	$ 33		

(1) The Company's derivative financial instruments are subject to master netting arrangements that allow for the offset of asset and liabilities in the event of default or early termination of the contract. The Company elects to record the gross assets and liabilities of its derivative financial instruments in the consolidated balance sheets. If the derivative financial instruments had been netted in the consolidated balance sheets, the asset and liability positions each would have been reduced by $33 million. No material amounts of collateral were received or posted on the Company's derivative assets and liabilities as of August 31, 2013.

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(In millions)	As of May 31, 2013 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value		Balance Sheet Classification
ASSETS						
Derivatives:						
Foreign exchange forwards and options	$—	$278	$—	$ 278	(1)	Other current assets and other long-term assets
Interest rate swap contracts	—	11	—	11		Other current assets and other long-term assets
Total derivatives	—	289	—	289		
Available-for-sale securities:						
U.S. Treasury securities	425	—	—	425		Cash and equivalents
U.S. Agency securities	—	20	—	20		Cash and equivalents
Commercial paper and bonds	—	1,035	—	1,035		Cash and equivalents
Money market funds	—	836	—	836		Cash and equivalents
U.S. Treasury securities	1,583	—	—	1,583		Short-term investments
U.S. Agency securities	—	401	—	401		Short-term investments
Commercial paper and bonds	—	644	—	644		Short-term investments
Non-marketable preferred stock	—	—	5	5		Other long-term assets
Total available-for-sale securities	2,008	2,936	5	4,949		
TOTAL ASSETS	$2,008	$3,225	$5	$ 5,238		
LIABILITIES						
Derivatives:						
Foreign exchange forwards and options	$—	$34	$—	$ 34	(1)	Accrued liabilities and other long-term liabilities
TOTAL LIABILITIES	$—	$34	$—	$ 34		

(1) The Company's derivative financial instruments are subject to master netting arrangements that allow for the offset of asset and liabilities in the event of default or early termination of the contract. The Company elects to record the gross assets and liabilities of its derivative financial instruments in the consolidated balance sheets. If the derivative financial instruments had been netted in the consolidated balance sheets, the asset and liability positions each would have been reduced by $34 million. No material amounts of collateral were received or posted on the Company's derivative assets and liabilities as of May 31, 2013.

Derivative financial instruments include foreign exchange forwards and options, embedded derivatives and interest rate swap contracts. 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. Adjustments relating to these nonperformance risks were not material at August 31, 2013 or May 31, 2013. Refer to Note 9 — Risk Management and Derivatives for additional detail.

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).

The Company's Level 3 assets comprise investments in certain non-marketable preferred stock. These investments are valued using internally developed models with unobservable inputs. These Level 3 investments are an immaterial

portion of our portfolio. Changes in Level 3 investment assets were immaterial during the three months ended August 31, 2013 and the year ended May 31, 2013.

No transfers among the levels within the fair value hierarchy occurred during the three months ended August 31, 2013 or the year ended May 31, 2013.

As of August 31, 2013 and May 31, 2013, the Company had no assets or liabilities that were required to be measured at fair value on a non-recurring basis.

Short-Term Investments

As of August 31, 2013 and May 31, 2013, short-term investments consisted of available-for-sale securities. As of August 31, 2013, the Company held $2,132 million of available-for-sale securities with maturity dates within one year from the purchase date and $510 million with maturity dates over one year and less than five years from the purchase date within short-term investments. As of May 31, 2013, the Company held $2,229 million of available-for-sale securities with maturity dates within one year from purchase date and $399 million with maturity dates over one year and less than five years from purchase date within short-term investments.

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Short-term investments classified as available-for-sale consist of the following at fair value:

(In millions)	As of August 31, 2013	As of May 31, 2013
Available-for-sale investments:		
U.S. treasury and agencies	$1,697	$1,984
Commercial paper and bonds	945	644
TOTAL AVAILABLE-FOR-SALE INVESTMENTS	$2,642	$2,628

Included in interest expense (income), net was interest income related to cash and equivalents and short-term investments of $3 million and $8 million for each of the three month periods ended August 31, 2013 and 2012, respectively.

Financial Assets and Liabilities Not Recorded at Fair Value

The Company’s long-term debt is recorded at adjusted cost, net of amortized 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 (Level 2). The fair value of the Company’s long-term debt, including the current portion, was approximately $1,143 million at August 31, 2013 and $1,219 million at May 31, 2013.

The carrying amounts reflected in the consolidated balance sheets for notes payable approximate fair value.

At August 31, 2013 the Company had $100 million of outstanding receivables related to its investments in reverse repurchase agreements recorded within other current assets on the consolidated balance sheet. 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.

NOTE 6 — Income Taxes

The effective tax rate on continuing operations was 25.0% and 26.9% for the three month periods ended August 31, 2013 and 2012, respectively. The decrease in our effective tax rate was due primarily to a reduction in the effective tax rate on operations outside the United States.

As of August 31, 2013, total gross unrecognized tax benefits, excluding related interest and penalties, were $491 million, $315 million of which would affect the Company’s effective tax rate if recognized in future periods. As of May 31, 2013, total gross unrecognized tax benefits, excluding interest and penalties, were $447 million. The liability for payment of interest and penalties increased $10 million during the three months ended August 31, 2013. As of August 31, 2013, accrued interest and penalties related to uncertain tax positions was $122 million (excluding federal benefit).

The Company is subject to taxation primarily in the U.S., China, the Netherlands, and Brazil, as well as various state and other foreign jurisdictions. The Company has concluded substantially all U.S. federal income tax matters through fiscal 2010. The Company is currently under audit by the Internal Revenue Service for the 2011 through 2013 tax years. Many issues are at an advanced stage in the examination process, the most significant of which includes the negotiation of a U.S. Unilateral Advanced Pricing Agreement that covers intercompany transfer pricing issues for fiscal years May 31, 2011 through May 31, 2015. In addition, the Company is in appeals regarding the validation of foreign tax credits taken. The Company's major foreign jurisdictions, China, the Netherlands, and Brazil, have concluded substantially all income tax matters through calendar 2005, fiscal 2007 and calendar 2007, 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 $25 million within the next 12 months.

NOTE 7 — Stock-Based Compensation

In 1990, the Board of Directors adopted, and the shareholders approved, the NIKE, Inc. 1990 Stock Incentive Plan (the “1990 Plan”). The 1990 Plan provides for the issuance of up to 326 million previously unissued shares of Class B Common Stock in connection with stock options and other awards granted under the 1990 Plan. The 1990 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 1990 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 1990 Plan were granted in the first quarter of each fiscal year, vest ratably over four years, and expire 10 years from the date of grant.

In addition to the 1990 Plan, the Company gives employees the right to purchase shares at a discount to the market price under employee stock purchase plans ("ESPPs"). Employees are eligible to participate through payroll deductions of up to 10% of their compensation. At the end of each six-month offering period, shares are purchased by the participants at 85% of the lower of the fair market value at the beginning or the end of the offering period.

The Company accounts for stock-based compensation by estimating the fair value of options granted under the 1990 Plan and employees' purchase rights under the ESPPs using the Black-Scholes option pricing model. The Company recognizes this fair value as operating overhead expense over the vesting period using the straight-line method.

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The following table summarizes the Company's total stock-based compensation expense recognized in selling and administrative expense:

	Three Months Ended August 31,	
(In millions)	2013	2012
Stock options[1]	$29	$26
ESPPs	5	4
Restricted stock	8	7
TOTAL STOCK-BASED COMPENSATION EXPENSE	$42	$37

(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 three month periods ended August 31, 2013 and 2012 was $4 million for both respective periods.

As of August 31, 2013, the Company had $273 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized as selling and administrative expense over a weighted average period of 2.8 years.

The weighted average fair value per share of the options granted during the three month periods ended August 31, 2013 and 2012, as computed using the Black-Scholes pricing model, was $14.85 and $12.72, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Three Months Ended August 31,			
	2013		2012	
Dividend yield	1.3	%	1.5	%
Expected volatility	27.9	%	35.0	%
Weighted average expected life (in years)	5.3		5.3	
Risk-free interest rate	1.3	%	0.6	%

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

NOTE 8 — Earnings Per Share

The following is a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase an additional 7.9 million and 27.3 million shares of common stock were outstanding for the three month periods ended August 31, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per share because the options were anti-dilutive.

	Three Months Ended August 31,	
(In millions, except per share data)	2013	2012
Determination of shares:		
Weighted average common shares outstanding	889.4	905.6
Assumed conversion of dilutive stock options and awards	21.3	17.2
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	910.7	922.8
Earnings per share from continuing operations:		
Basic earnings per common share	$0.88	$0.65
Diluted earnings per common share	$0.86	$0.63

Earnings per share from discontinued operations:		
Basic earnings per common share	$—	$(0.03)
Diluted earnings per common share	$—	$(0.02)
Basic earnings per common share for NIKE, Inc.	$0.88	$0.62
Diluted earnings per common share for NIKE, Inc.	$0.86	$0.61

NOTE 9 — Risk Management and Derivatives

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

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

The majority of derivatives outstanding as of August 31, 2013 are designated as cash flow or fair value hedges. All derivatives are recognized on the balance sheet at fair value and classified based on the instrument's maturity date. The total notional amount of outstanding derivatives as of August 31, 2013 was approximately $9 billion, which primarily comprises cash flow hedges for Euro/U.S. Dollar, British Pound/Euro, and Japanese Yen/U.S. Dollar currency pairs. As of August 31, 2013, there were outstanding currency forward contracts with maturities up to 21 months.

The following table presents the fair values of derivative instruments included within the consolidated balance sheets as of August 31, 2013 and May 31, 2013:

(In millions)	Asset Derivatives Balance Sheet Location	August 31, 2013	May 31, 2013	Liability Derivatives Balance Sheet Location	August 31, 2013	May 31, 2013
Derivatives formally designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	$113	$141	Accrued liabilities	$22	$12
Foreign exchange forwards and options	Deferred income taxes and other long-term assets	49	79	Deferred income taxes and other long-term liabilities	—	—
Interest rate swap contracts	Deferred income taxes and other long-term assets	9	11	Deferred income taxes and other long-term liabilities	—	—
Total derivatives formally designated as hedging instruments		$171	$231		$22	$12
Derivatives not designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	$38	$58	Accrued liabilities	$11	$22
Embedded derivatives	Prepaid expenses and other current assets	—	—	Accrued liabilities	—	—
Total derivatives not designated as hedging instruments		$38	$58		$11	$22
TOTAL DERIVATIVES		$209	$289		$33	$34

The following tables present the amounts affecting the consolidated statements of income for the three month periods ended August 31, 2013 and 2012:

(In millions)	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives[1]		Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income[1]		
	Three Months Ended August 31,		Location of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income Into	Three Months Ended August 31,	
	2013	2012		2013	2012

			Income[1]		
Derivatives designated as cash flow hedges:					
Foreign exchange forwards and options	$(3)	$(9)	Revenue	$14	$(14)
Foreign exchange forwards and options	(24)	(24)	Cost of sales	16	32
Foreign exchange forwards and options	1	1	Selling and administrative expense	—	—
Foreign exchange forwards and options	(7)	(8)	Other expense (income), net	5	8
Total designated cash flow hedges	$(33)	$(40)		$35	$26
Derivatives designated as net investment hedges:					
Foreign exchange forwards and options	$—	$—	Other expense (income), net	$—	$—

(1) For the three month periods ended August 31, 2013 and 2012, the amounts recorded in other expense (income), net as a result of hedge ineffectiveness and the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.

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(In millions)	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended August 31, 2013	2012	Location of Gain (Loss) Recognized in Income on Derivatives
Derivatives designated as fair value hedges:			
Interest rate swaps[1]	$ 1	$ 2	Interest expense (income), net
Derivatives not designated as hedging instruments:			
Foreign exchange forwards and options	(15)	(29)	Other expense (income), net
Embedded derivatives	$ —	$ —	Other expense (income), net

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

Refer to Note 4 — Accrued Liabilities for derivative instruments recorded in accrued liabilities, and Note 5 — Fair Value Measurements for a description of how the above financial instruments are valued.

Cash Flow Hedges

The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual cash flows resulting from transactions in foreign currencies will be adversely affected by changes in exchange rates. Foreign currency exposures that the Company may elect to hedge in this manner include product cost exposures, non-functional currency denominated external and intercompany revenues, selling and administrative expenses, investments in U.S. Dollar-denominated available-for-sale debt securities, and certain other intercompany transactions.

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

In January 2012, the Company implemented 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, the Company's payments to these factories are adjusted for rate fluctuations in the basket of currencies ("factory currency exposure index") in which the labor, materials, and overhead costs incurred by the factories in the production of NIKE branded products ("factory input costs") are denominated. For the portion of the indices denominated in the local or functional currency of the factory, the Company may elect to place formally designated cash flow hedges. For all currencies within the indices, excluding the U.S. Dollar and the local or functional currency of the factory, an embedded derivative contract is created upon the factory's acceptance of NIKE's purchase order. Embedded derivative contracts are separated from the related purchase order and their accounting treatment is described further below.

The Company's policy permits the utilization of derivatives to reduce its foreign currency exposures where internal netting or other strategies cannot be effectively employed. Hedged transactions are denominated primarily in Euros, British Pounds, and Japanese Yen. The Company may enter into hedge contracts typically starting up to 12 to 18 months in advance of the forecasted transaction and may place incremental hedges for up to 100% of the exposure by the time the forecasted transaction occurs.

All changes in fair value of derivatives designated as cash flow hedges, excluding any ineffective portion, are recorded in other comprehensive income until net income is affected by the variability of cash flows of the hedged transaction. In most cases, amounts recorded in other comprehensive income will be released to net income some time after the maturity of the related derivative. Effective hedge results are classified within the consolidated statements of

income in the same manner as the underlying exposure, with the results of hedges of non-functional currency denominated revenues and product cost exposures, excluding embedded derivatives as described below, recorded in revenues or cost of sales, when the underlying hedged transaction affects consolidated net income. Results of hedges of selling and administrative expense are recorded together with those costs when the related expense is recorded. Results of hedges of anticipated purchases and sales of U.S. Dollar-denominated available-for-sale securities are recorded in other expense (income), net when the securities are sold. Results of hedges of certain anticipated intercompany transactions are recorded in other expense (income), net when the transaction occurs. The Company classifies the cash flows at settlement from these designated cash flow hedge derivatives in the same category as the cash flows from the related hedged items, generally within the cash provided by operations component of the cash flow statement.

Premiums paid on options are initially recorded as deferred charges. The Company assesses the effectiveness of options based on the total cash flows method and records total changes in the options' fair value to other comprehensive income to the degree they are effective.

The Company formally assesses, both at a hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Effectiveness for cash flow hedges is assessed based on forward rates. Ineffectiveness was not material for the three month periods ended August 31, 2013 and 2012.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, but is expected to occur within an additional two-month period of time thereafter, the gain or loss on the derivative remains in

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accumulated other comprehensive income and is reclassified to net income when the forecasted transaction affects consolidated net income. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in other expense (income), net. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing future changes in the fair value in other expense (income), net. For the three month periods ended August 31, 2013 and 2012, the amounts recorded in other expense (income), net as a result of the discontinuance of cash flow hedging because the forecasted transaction was no longer probable of occurring were immaterial.

As of August 31, 2013, $92 million of deferred net gains (net of tax) on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next 12 months concurrent with the underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on the exchange rates in effect when derivative contracts that are currently outstanding mature. As of August 31, 2013, the maximum term over which the Company is hedging exposures to the variability of cash flows for its forecasted transactions is 21 months.

Fair Value Hedges

The Company is also exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates. Derivatives currently used by the Company to hedge this risk are receive-fixed, pay-variable interest rate swaps. As of August 31, 2013, all interest rate swap agreements are designated as fair value hedges of the related long-term debt and meet the shortcut method requirements under the accounting standards for derivatives and hedging. Accordingly, changes in the fair values of the interest rate swap agreements are considered to exactly offset changes in the fair value of the underlying long-term debt. The cash flows associated with the Company’s fair value hedges are periodic interest payments while the swaps are outstanding, which are reflected within the cash provided by operations component of the cash flow statement. The Company recorded no ineffectiveness from its interest rate swaps designated as fair value hedges for the three month periods ended August 31, 2013 or 2012.

Net Investment Hedges

The Company has hedged and may, in the future, hedge the risk of variability in foreign-currency-denominated net investments in wholly-owned international operations. All changes in fair value of the derivatives designated as net investment hedges, except ineffective portions, are reported in the cumulative translation adjustment component of other comprehensive income along with the foreign currency translation adjustments on those investments. The Company classifies the cash flows at settlement of its net investment hedges within the cash provided or used by investing component of the cash flow statement. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from its net investment hedges for the three month periods ended August 31, 2013 or 2012.

Embedded Derivatives

As part of the foreign currency adjustment program described above, an embedded derivative contract is created upon the factory’s acceptance of NIKE’s purchase order for currencies within the factory currency exposure indices that are neither the U.S. Dollar nor the local or functional currency of the factory. Embedded derivative contracts are treated as foreign currency forward contracts that are bifurcated from the related purchase order and recorded at fair value as a derivative asset or liability on the balance sheet with their corresponding change in fair value recognized in other expense (income), net from the date a purchase order is accepted by a factory through the date the purchase price is no longer subject to foreign currency fluctuations. At August 31, 2013, the notional amount of embedded derivatives was approximately $101 million.

Undesignated Derivative Instruments

The Company may elect to enter into foreign exchange forwards to mitigate the change in fair value of specific assets and liabilities on the balance sheet and/or the embedded derivative contracts explained above. These forwards are not designated as hedging instruments under the accounting standards for derivatives and hedging. Accordingly, these undesignated instruments are recorded at fair value as a derivative asset or liability on the balance sheet with their corresponding change in fair value recognized in other expense (income), net, together with the re-measurement gain

or loss from the hedged balance sheet position or embedded derivative contract. The Company classifies the cash flows at settlement from undesignated instruments in the same category as the cash flows from the related hedged items, generally within the cash provided by operations component of the cash flow statement.

Credit Risk

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

The Company’s derivative contracts contain credit risk related contingent features designed to protect against significant deterioration in counterparties’ creditworthiness and their ultimate ability to settle outstanding derivative contracts in the normal course of business. The Company’s bilateral credit related contingent features generally require the owing entity, either the Company or the derivative counterparty, to post collateral for the portion of the fair value in excess of $50 million should the fair value of outstanding derivatives per counterparty be greater than $50 million. Additionally, a certain level of decline in credit rating of either the Company or the counterparty could also trigger collateral requirements. As of August 31, 2013, the Company was in compliance with all credit risk related contingent features and the fair value of its derivative instruments with credit risk related contingent features in a net liability position was insignificant. Accordingly, the Company was not required to post any collateral as a result of these contingent features. Further, as of August 31, 2013, those counterparties which were required to post collateral complied with such requirements. Given the considerations described above, the Company considers the impact of the risk of counterparty default to be immaterial.

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NOTE 10 — Accumulated Other Comprehensive Income

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

(in millions)	Foreign Currency Translation Adjustment[1]	Cash Flow Hedges	Net Investment Hedges[1]	Other	Total
Balance at May 31, 2013	$41	$193	$95	$(55)	$274
Other comprehensive gains (losses) before reclassifications [2]	(31)	(35)	—	(2)	(68)
Reclassifications to net income of previously deferred (gains) losses [3]	—	(30)	—	1	(29)
Other comprehensive income (loss)	(31)	(65)	—	(1)	$(97)
Balance at August 31, 2013	$10	$128	$95	$(56)	$177

(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 entity.

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

(3) Net of tax expense of $0 million, $5 million, $0 million, $0 million, respectively.

The following table summarizes the reclassifications from accumulated other comprehensive income to the unaudited condensed consolidated statements of income:

(in millions)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income
Gains (losses) on cash flow hedges:		
Foreign exchange forwards and options	$14	Revenue
Foreign exchange forwards and options	16	Cost of sales
Foreign exchange forwards and options	—	Selling and administrative expense
Foreign exchange forwards and options	5	Other expense (income), net
Total before tax	35	
Tax (expense) benefit	(5)	
Gain net of tax	$30	
Gains (losses) on other	(1)	Other expense (income), net
Total before tax	(1)	
Tax (expense) benefit	—	
(Loss) net of tax	$(1)	
Total net gain reclassified for the period	$29	

NOTE 11 — Discontinued Operations

During the year ended May 31, 2013, the Company divested of Umbro and Cole Haan, allowing it to focus its resources on driving growth in the NIKE, Jordan, Converse, and Hurley brands.

On February 1, 2013, the Company completed the sale of Cole Haan to Apax Partners for an agreed upon purchase price of $570 million and received at closing $561 million, net of $9 million of purchase price adjustments. The transaction resulted in a gain on sale of $231 million, net of $137 million in tax expense; this gain was included in the net income (loss) from discontinued operations line item on the consolidated statements of income for the year ended May 31, 2013. There were no adjustments to these recorded amounts as of August 31, 2013. Beginning November 30,

2012, the Company classified the Cole Haan disposal group as held-for-sale and presented the results of Cole Haan's operations in the net income (loss) from discontinued operations line item on the consolidated statements of income. From this date until the sale, the assets and liabilities of Cole Haan were recorded in the assets of discontinued operations and liabilities of discontinued operations line items on the consolidated balance sheets, respectively. Previously, these amounts were reported in the Company's segment presentation as “Other Businesses.”

Under the sale agreement, the Company agreed to provide certain transition services to Cole Haan for an expected period of 3 to 9 months from the date of sale. These services are substantially complete. The Company will also license NIKE proprietary Air and Lunar technologies to Cole Haan for a transition period. The continuing cash flows related to these items are not significant to Cole Haan and the Company will have no significant continuing involvement with Cole Haan beyond the transition services. Additionally, preexisting guarantees of certain Cole Haan lease payments remain in place after the sale; the maximum exposure under the guarantees is $41 million at August 31, 2013. The fair value of the guarantees is not material.

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On November 30, 2012, the Company completed the sale of certain assets of Umbro to Iconix Brand Group ("Iconix") for $225 million. The Umbro disposal group was classified as held-for-sale as of November 30, 2012 and the results of Umbro's operations are presented in the net (loss) from discontinued operations line item on the consolidated statements of income. The remaining liabilities of Umbro are recorded in the liabilities of discontinued operations line items on the consolidated balance sheets. Previously, these amounts were reported in the Company's segment presentation as "Other Businesses." Upon meeting the held-for-sale criteria, the Company recorded a loss of $107 million, net of tax, on the sale of Umbro and the loss was included in the net income (loss) from discontinued operations line item on the consolidated statements of income for the year ended May 31, 2013. The loss on sale was calculated as the net sales price less Umbro assets of $248 million, including intangibles, goodwill, and fixed assets, other miscellaneous charges of $22 million, and the release of the associated cumulative translation adjustment of $129 million. The tax benefit on the loss was $67 million. There were no adjustments to these recorded amounts as of August 31, 2013.

Under the sale agreement, the Company provided transition services to Iconix while certain markets were transitioned to Iconix-designated licensees. These transition services are complete and the Company has wound down the remaining operations of Umbro.

Summarized results of the Company's discontinued operations are as follows:

	Three Months Ended August 31,	
(In millions)	2013	2012
Revenues	$—	$195
(Loss) before income taxes	—	(18)
Income tax expense (benefit)	—	—
Net (loss) from discontinued operations	$—	$(18)

As of August 31, 2013 and May 31, 2013, the aggregate components of liabilities classified as discontinued operations and included in current liabilities consisted of the following:

(In millions)	As of August 31, 2013	As of May 31, 2013
Accounts payable	$1	$1
Accrued liabilities	11	17
Deferred income taxes and other liabilities	—	—
TOTAL LIABILITIES	$12	$18

There were no assets of discontinued operations as of August 31, 2013 and May 31, 2013.

NOTE 12 — Operating Segments

The Company's operating segments are evidence of the structure of the Company's internal organization. The Company's operating segments have changed beginning in the first quarter of fiscal 2014 to mirror the changes in the structure of the Company's internal organization that were effective during the first quarter of fiscal 2014. The NIKE Brand segments continue to be defined by geographic regions for operations participating in NIKE Brand sales activity and also include the results of NIKE Golf and Hurley, which are now managed within the geographies. Previously, NIKE Golf and Hurley were combined with Converse and reported as "Other Businesses."

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. The Company's NIKE Brand Direct to Consumer operations are managed within each geographic operating segment. Converse is also a reportable segment for NIKE, Inc., and operates in one industry: the design, marketing, licensing, and selling of casual sneakers, apparel, and accessories. Prior period segment information has been restated to reflect these changes.

Global Brand Divisions is included within the NIKE Brand for presentation purposes to align with the way management views the Company. Global Brand Divisions primarily represent NIKE Brand licensing businesses that

are not part of a geographic operating segment, demand creation and operating overhead expenses that are centrally managed for the NIKE Brand, and costs associated with product development and supply chain operations.
Corporate consists largely of unallocated general and administrative expenses, including expenses associated with centrally managed departments; depreciation and amortization related to the Company's headquarters; unallocated insurance and benefit programs, including stock-based compensation; certain foreign currency gains and losses, including certain hedge gains and losses; and, other items.
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 taxes in the consolidated statements of income. Reconciling items for EBIT represent corporate expense items that are not allocated to the operating segments for management reporting.
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 months in advance of the future selling season 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 in the entity's functional currency. Differences between assigned standard foreign currency rates and actual market rates are included in Corporate, together with foreign currency hedge gains and losses generated from our centrally managed foreign exchange risk management program and other conversion gains and losses.

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Accounts receivable, inventories and property, plant and equipment for operating segments are regularly reviewed by management and are therefore provided below.
Certain prior year amounts have been reclassified to conform to fiscal 2014 presentation.

	Three Months Ended August 31,	
(In millions)	2013	2012
REVENUE		
North America	$3,135	$2,866
Western Europe	1,301	1,176
Central & Eastern Europe	366	327
Greater China	574	577
Japan	158	197
Emerging Markets	902	897
Global Brand Divisions	32	27
Total NIKE Brand	6,468	6,067
Converse	494	418
Corporate	9	(11)
TOTAL NIKE CONSOLIDATED REVENUES	$6,971	$6,474
EARNINGS BEFORE INTEREST AND TAXES		
North America	$813	$645
Western Europe	265	212
Central & Eastern Europe	81	54
Greater China	170	165
Japan	24	23
Emerging Markets	210	221
Global Brand Divisions	(466)	(456)
Total NIKE Brand	1,097	864
Converse	169	124
Corporate	(218)	(191)
Total NIKE Consolidated Earnings Before Interest and Taxes	1,048	797
Interest expense (income), net	8	(3)
TOTAL NIKE CONSOLIDATED EARNINGS BEFORE TAXES	$1,040	$800

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(In millions)	As of August 31, 2013	As of May 31, 2013
ACCOUNTS RECEIVABLE, NET		
North America	$1,422	$1,459
Western Europe	504	375
Central & Eastern Europe	330	287
Greater China	55	56
Japan	103	154
Emerging Markets	527	574
Global Brand Divisions	27	29
Total NIKE Brand	2,968	2,934
Converse	204	131
Corporate	35	52
TOTAL ACCOUNTS RECEIVABLE, NET	$3,207	$3,117
INVENTORIES		
North America	$1,596	$1,581
Western Europe	511	556
Central & Eastern Europe	188	207
Greater China	255	209
Japan	89	69
Emerging Markets	634	567
Global Brand Divisions	31	31
Total NIKE Brand	3,304	3,220
Converse	164	210
Corporate	4	4
TOTAL INVENTORIES	$3,472	$3,434
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	$454	$424
Western Europe	327	327
Central & Eastern Europe	48	44
Greater China	207	213
Japan	273	269
Emerging Markets	92	89
Global Brand Divisions	307	358
Total NIKE Brand	1,708	1,724
Converse	51	52
Corporate	798	676
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	$2,557	$2,452

NOTE 13 — Commitments and Contingencies

At August 31, 2013, the Company had letters of credit outstanding totaling $144 million. These letters of credit were issued primarily for the purchase of inventory and guarantees of the Company’s performance under certain self-insurance and other programs.

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

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In the first quarter of fiscal 2014, our revenues from continuing operations increased 8% to $7.0 billion; foreign currency exchange rates did not have a significant impact on our consolidated reported revenue results. We delivered net income from continuing operations of $780 million and diluted earnings per share from continuing operations of $0.86, 33% and 37% above the first quarter of fiscal 2013, respectively.

Income before income taxes from continuing operations increased 30% compared to the first quarter of the prior year due to an increase in revenues, higher gross margin, and selling and administrative expense leverage, which more than offset an increase in other expense, net. The NIKE Brand, which represents over 90% of NIKE, Inc. revenues, delivered constant currency revenue growth across all product types and all geographies, except Greater China, and most key categories. Brand strength, innovative products and strong category retail presentation continue to fuel the demand for NIKE Brand products. Revenue from Converse increased 16%, driven by growth in owned markets, specifically the United States, the U.K., and China.

Our first quarter net income from continuing operations was positively impacted by a year-on-year decrease in our effective tax rate of 190 basis points, largely due to a lower effective tax rate on foreign operations. Diluted earnings per share also benefited from a 1% decline in the weighted average diluted common shares outstanding driven by our share repurchase program.

In fiscal 2013, we divested of Cole Haan and Umbro, allowing us to focus our resources on driving growth in the NIKE, Jordan, Converse, and Hurley brands. We have substantially completed all transition services related to the sale of both businesses. Unless otherwise indicated, the following disclosures reflect our continuing operations; refer to our "Discontinued Operations" section for additional information regarding our discontinued operations.

Results of Operations

Unless otherwise indicated, the following disclosures reflect the Company's continuing operations.

	Three Months Ended August 31,		
(Dollars in millions, except per share data)	2013	2012	% Change
Revenues	$6,971	$6,474	8%
Cost of sales	3,839	3,646	5%
Gross profit	3,132	2,828	11%
Gross margin %	44.9%	43.7%	
Demand creation expense	731	871	-16%
Operating overhead expense	1,325	1,188	12%
Total selling and administrative expense	2,056	2,059	0%
% of Revenues	29.5%	31.8%	
Interest expense (income), net	8	(3)	—
Other expense (income), net	28	(28)	—
Income before income taxes	1,040	800	30%
Income tax expense	260	215	21%
Effective tax rate	25.0%	26.9%	
Net income from continuing operations	780	585	33%
Net (loss) from discontinued operations	—	(18)	—
Net income	$780	$567	38%
Diluted earnings per share - Continuing Operations	$0.86	$0.63	37%
Diluted earnings per share - Discontinued Operations	$—	$(0.02)	—

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Consolidated Operating Results

Revenues

(Dollars in millions)	Three Months Ended August 31, 2013	2012	% Change	% Change Excluding Currency Changes[2]
NIKE, Inc. Revenues [1]:				
NIKE Brand Revenues by:				
Footwear	$3,979	$3,711	7 %	8 %
Apparel	2,023	1,912	6 %	6 %
Equipment	434	417	4 %	5 %
Global Brand Divisions	32	27	19 %	12 %
Total NIKE Brand	6,468	6,067	7 %	7 %
Converse	494	418	18 %	16 %
Corporate[3]	9	(11)	—	—
TOTAL NIKE, INC. REVENUES	$6,971	$6,474	8 %	8 %
Supplemental NIKE Brand Revenues Details:				
NIKE Brand Revenues by:				
Sales to Wholesale Customers	$5,135	$4,932	4 %	4 %
Sales Direct to Consumer	1,301	1,108	17 %	18 %
Global Brand Divisions	32	27	19 %	12 %
TOTAL NIKE BRAND REVENUES	$6,468	$6,067	7 %	7 %

(1) Certain prior year amounts have been reclassified to conform to fiscal 2014 presentation.

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

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

NIKE, Inc. revenues grew 8% for the first quarter of fiscal 2014, driven by increases in revenues for both the NIKE Brand and Converse. On a currency neutral basis, every NIKE Brand geography except Greater China delivered higher revenues for the first quarter of fiscal 2014. North America contributed 4 percentage points of the increase in NIKE, Inc. revenues, while Western Europe, Emerging Markets, Central & Eastern Europe, and Converse each contributed approximately 1 percentage point. Greater China's results reduced NIKE, Inc. revenue growth by 1 percentage point.

Excluding the effects of changes in currency exchange rates, NIKE Brand footwear and apparel revenue increased 8% and 6%, respectively, while NIKE Brand equipment revenues increased 5% during the first quarter of fiscal 2014. The increase in NIKE Brand footwear revenue for the first quarter of fiscal 2014 was attributable to growth across our Running, Basketball, and Football (Soccer) categories. The growth of NIKE footwear revenues continued to be fueled by increased demand for performance products, including Running models with NIKE FREE and Air Max technologies, NIKE and Brand Jordan Basketball styles, and performance Football (Soccer) products. In the first quarter of fiscal 2014, unit sales of footwear increased approximately 3% and the average selling price per pair increased approximately 5%, driven nearly equally by a shift in mix to higher priced products and price increases.

For NIKE Brand apparel, the increase in revenue for the first quarter of fiscal 2014 was driven by growth in most of our key categories, most notably our Men's Training category (which includes the NFL licensed business), Football (Soccer), Running and Basketball. Apparel unit sales in the first quarter of fiscal 2014 increased approximately 4% and the average selling price per unit increased approximately 2%, largely reflecting a favorable mix of higher priced products, such as NFL licensed apparel, performance Running and Basketball.

While wholesale revenues remain the largest component of overall NIKE Brand revenues, we continue to expand our NIKE Brand Direct to Consumer ("DTC") businesses in each of our geographies. Our NIKE Brand DTC operations include NIKE owned in-line and factory stores, as well as online sales through NIKE owned websites. For the first quarter of fiscal 2014, DTC revenues represented approximately 20% of our total NIKE Brand revenues compared to 18% in the first quarter of fiscal 2013. On a currency neutral basis, DTC revenues grew 18% for the first quarter of fiscal 2014, due to comparable store sales growth of 9%, net new DTC doors, and to a lesser extent, an increase in online sales. 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.

Futures Orders

Futures orders for NIKE Brand footwear and apparel scheduled for delivery from September 2013 through January 2014 totaled $9.6 billion and were 8% higher than the orders reported for the comparable prior year period. The U.S. Dollar futures order 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

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changes, futures orders increased 10%, as increased unit orders contributed approximately 7 percentage points of growth and a higher average selling price per unit contributed approximately 3 percentage points of growth.

By geography, futures orders growth was as follows:

	Reported Futures Orders Growth	Futures Orders Excluding Currency Changes[1]
North America	11 %	12 %
Western Europe	12 %	12 %
Central & Eastern Europe	25 %	27 %
Greater China	3 %	2 %
Japan	-19 %	1 %
Emerging Markets	1 %	7 %
Total NIKE Brand Futures Orders	8 %	10 %

(1) Growth rates have been restated using constant 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, because the mix of orders can shift between futures and at-once orders, and 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 significant portion of our revenue is not derived from futures orders, including at-once and close-out sales of NIKE Brand footwear and apparel, sales of NIKE Brand equipment, sales from our DTC operations, and sales from Converse, NIKE Golf, and Hurley.

Gross Margin

	Three Months Ended August 31,		
(Dollars in millions)	2013	2012	% Change
Gross profit	$3,132	$2,828	11 %
Gross margin %	44.9 %	43.7 %	120 bps

For the first quarter of fiscal 2014, our consolidated gross margin was 120 basis points higher than the prior year period, primarily driven by the following factors:

- Lower NIKE Brand product costs (approximately 90 basis points) due to easing raw material costs and a shift in the mix of revenues to higher margin products, partially offset by labor cost inflation;
- Higher NIKE Brand average net selling prices (approximately 40 basis points) primarily due to lower discounts and price increases;
- Growth in our higher margin NIKE Brand DTC business (approximately 20 basis points); and
- Growth in Converse gross margin primarily due to a shift in the mix of revenues to the higher margin U.K. territory, in addition to a favorable product mix (approximately 20 basis points).

These positive benefits were partially offset by unfavorable foreign currency exchange rate movements (approximately 60 basis points).

Selling and Administrative Expense

	Three Months Ended August 31,		
(Dollars in millions)	2013	2012	% Change
Demand creation expense[1]	$731	$871	-16 %
Operating overhead expense	1,325	1,188	12 %
Selling and administrative expense	$2,056	$2,059	0 %
% of Revenues	29.5 %	31.8 %	(230) bps

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

Demand creation expense decreased 16% compared to the prior year quarter, which included higher marketing spending around the European Football Championships, the London Summer Olympics, and key product initiatives.

Changes in foreign currency exchange rates did not have a material impact on demand creation expense.
Compared to the prior year, operating overhead expense increased 12%, primarily attributable to increased investments in digital capabilities and other growth initiatives, as well as higher DTC costs driven by growth and new store openings.

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Other Expense (Income), net

(In millions)	Three Months Ended August 31, 2013	2012
Other expense (income), net	$28	$(28)

Other expense (income), net comprises foreign currency conversion gains and losses from the re-measurement of monetary assets and liabilities denominated in non-functional currencies, the impact of certain foreign currency derivative instruments, as well as unusual or non-operating transactions that are outside the normal course of business.
Other expense (income), net for the first quarter of fiscal 2014 decreased $56 million compared to the prior year. This change was primarily driven by a $46 million change in foreign currency conversion results from net gains in the prior year to net losses in the current year. Also contributing to the decrease in other expense (income), net were lower net gains from non-operating items.
We estimate the combination of the translation of foreign currency-denominated profits from our international businesses and the year-over-year change in foreign currency related gains and losses included in other expense (income), net had an unfavorable impact on our income before income taxes of $38 million for the first quarter of fiscal 2014.

Income Taxes

	Three Months Ended August 31, 2013	2012	% Change
Effective tax rate	25.0 %	26.9 %	(190) bps

Our effective tax rate for the first quarter of fiscal 2014 was 190 basis points lower than the effective tax rate for the first quarter of fiscal 2013 due primarily to a reduction in the effective tax rate on operations outside the United States.

Discontinued Operations

During fiscal 2013, we divested of Umbro and Cole Haan, allowing us to focus our resources on driving growth in the NIKE, Jordan, Converse and Hurley brands.
On February 1, 2013, we completed the sale of Cole Haan to Apax Partners for an agreed upon purchase price of $570 million and received at closing $561 million, net of $9 million of purchase price adjustments. The transaction resulted in a gain on sale of $231 million, net of $137 million in tax expense; this gain was included in the net income (loss) from discontinued operations line item on the consolidated statements of income for the year ended May 31, 2013. Beginning November 30, 2012, we classified the Cole Haan disposal group as held-for-sale and presented the results of Cole Haan's operations in the net income (loss) from discontinued operations line item on the consolidated statements of income. From this date until the sale, the assets and liabilities of Cole Haan were recorded as assets and liabilities of discontinued operations on the consolidated balance sheets of NIKE, Inc. Previously, these amounts were reported in our segment presentation as “Other Businesses.”
Under the sale agreement, we agreed to provide certain transition services to Cole Haan for an expected period of 3 to 9 months from the date of sale. These services are now complete. We will also license NIKE proprietary Air and Lunar technologies to Cole Haan for a transition period. The continuing cash flows related to these items are not significant to Cole Haan and we will have no significant continuing involvement with Cole Haan beyond the transition services. Additionally, preexisting guarantees of certain Cole Haan lease payments remain in place after the sale; the maximum exposure under the guarantees is $41 million at August 31, 2013. The fair value of these guarantees is not material.
On November 30, 2012, we completed the sale of certain assets of Umbro to Iconix Brand Group (“Iconix”) for $225 million. The results of Umbro's operations and Umbro's financial position are presented as discontinued operations on the unaudited condensed consolidated statements of income and balance sheets, respectively. Previously, these amounts were reported in our segment presentation as “Other Businesses.” Upon meeting the held-for-sale criteria in fiscal 2013, we recorded a loss of $107 million, net of tax, on the sale of Umbro. The loss on sale was calculated as the net sales price less the Umbro assets of $248 million, including intangibles, goodwill, and fixed assets, other miscellaneous charges of $22 million, and the release of the associated cumulative translation adjustment of $129 million, offset by a $67 million tax benefit on the loss.

Under the sale agreement, we provided transition services to Iconix while certain markets were transitioned to Iconix-designated licensees. These transition services are complete and we have wound down the remaining operations of Umbro.

Operating Segments

Our reportable operating segments are evidence of the structure of the Company's internal organization, which has changed beginning in the first quarter of fiscal 2014. The NIKE Brand segments continue to be defined by geographic regions for operations participating in NIKE Brand sales activity, which now includes the results of NIKE Golf and Hurley. Previously, NIKE Golf and Hurley were combined with Converse and reported as "Other Businesses."
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. The Company’s NIKE Brand DTC operations are managed within each geographic segment. Converse is also a reportable segment for NIKE, Inc., and operates in one industry: the design, marketing, licensing, and selling of casual sneakers, apparel, and accessories. Prior year amounts have been restated to conform to the fiscal 2014 presentation.

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 months in advance of the future selling season 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.

The breakdown of revenues is as follows:

	Three Months Ended August 31,			
(Dollars in millions)	2013	2012[1]	FY13 vs. FY12 % Change	% Change Excluding Currency Changes[2]
North America	$3,135	$2,866	9 %	9 %
Western Europe	1,301	1,176	11 %	8 %
Central & Eastern Europe	366	327	12 %	10 %
Greater China	574	577	-1 %	-3 %
Japan	158	197	-20 %	1 %
Emerging Markets	902	897	1 %	5 %
Global Brand Divisions	32	27	19 %	12 %
Total NIKE Brand Revenues	6,468	6,067	7 %	7 %
Converse	494	418	18 %	16 %
Corporate[3]	9	(11)	—	—
TOTAL NIKE, INC. REVENUES	$6,971	$6,474	8 %	8 %

(1) Certain prior year amounts have been reclassified to conform to fiscal 2014 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 period to enhance the visibility of the underlying business trends by excluding the impact of translation arising from foreign currency exchange rate fluctuations.

(3) 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 taxes in the consolidated statements of income. As discussed in Note 12 — Operating Segments in the accompanying notes to the unaudited condensed consolidated financial statements, certain corporate costs are not included in EBIT of our operating segments.

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

	Three Months Ended August 31,		
(Dollars in millions)	2013	2012[1]	% Change
North America	$813	$645	26 %
Western Europe	265	212	25 %
Central & Eastern Europe	81	54	50 %
Greater China	170	165	3 %
Japan	24	23	4 %
Emerging Markets	210	221	-5 %
Global Brand Divisions	(466)	(456)	-2 %
Total NIKE Brand	1,097	864	27 %

Converse	169	124	36 %
Corporate	(218)	(191)	-14 %
TOTAL CONSOLIDATED EARNINGS BEFORE INTEREST AND TAXES	$1,048	$797	31 %
Interest expense (income), net	8	(3)	—
TOTAL CONSOLIDATED INCOME BEFORE INCOME TAXES	$1,040	$800	30 %

(1) Certain prior year amounts have been reclassified to conform to fiscal 2014 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

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North America

(Dollars in millions)	Three Months Ended August 31, 2013	2012	% Change	% Change Excluding Currency Changes
Revenues by:				
Footwear	$1,904	$1,745	9 %	9 %
Apparel	1,009	924	9 %	9 %
Equipment	222	197	13 %	13 %
TOTAL REVENUES	$3,135	$2,866	9 %	9 %
Revenues by:				
Sales to Wholesale Customers	$2,344	$2,162	8 %	8 %
Sales Direct to Consumer	791	704	12 %	12 %
TOTAL REVENUES	$3,135	$2,866	9 %	9 %
EARNINGS BEFORE INTEREST AND TAXES	$813			