

Edgar Filing: NIKE INC - Form 10-Q

NIKE INC  
Form 10-Q  
January 09, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended November 30, 2007  
Commission file number - 1-10635

NIKE, Inc.

(Exact name of registrant as specified in its charter)

OREGON

93-0584541

(State or other jurisdiction of  
incorporation or organization)

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

One Bowerman Drive, Beaverton, Oregon

97005-6453

(Address of principal executive offices)

(Zip Code)

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

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an  
accelerated filer, or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Common Stock shares outstanding as of November 30, 2007 were:

Class A	105,014,650
Class B	392,240,992

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497,255,642

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PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	November 30, 2007	May 31, 2007
	-----	-----
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$2,470.5	\$1,856.7
Short-term investments	601.0	990.3
Accounts receivable, net	2,617.1	2,494.7
Inventories (Note 2)	2,223.7	2,121.9
Deferred income taxes	253.9	219.7
Prepaid expenses and other current assets	521.2	393.2
	-----	-----
Total current assets	8,687.4	8,076.5
Property, plant and equipment	3,907.8	3,619.1
Less accumulated depreciation	2,119.7	1,940.8
	-----	-----
Property, plant and equipment, net	1,788.1	1,678.3
Identifiable intangible assets, net (Note 3)	409.7	409.9
Goodwill (Note 3)	130.8	130.8
Deferred income taxes and other assets	438.6	392.8
	-----	-----
Total assets	\$11,454.6	\$10,688.3
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 6.1	\$ 30.5
Notes payable	119.5	100.8
Accounts payable	1,053.5	1,040.3
Accrued liabilities (Note 4)	1,501.4	1,303.4
Income taxes payable	108.4	109.0
	-----	-----
Total current liabilities	2,788.9	2,584.0
Long-term debt	436.3	409.9
Deferred income taxes and other liabilities	736.9	668.7

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Commitments and contingencies (Note 10)	--	--
Redeemable preferred stock	0.3	0.3
Shareholders' equity:		
Common stock at stated value:		
Class A convertible- 105.0 and 117.6 million shares outstanding	0.1	0.1
Class B-392.2 and 384.1 million shares outstanding	2.7	2.7
Capital in excess of stated value	2,287.7	1,960.0
Accumulated other comprehensive income (Note 6)	229.0	177.4
Retained earnings	4,972.7	4,885.2
	<hr/>	<hr/>
Total shareholders' equity	7,492.2	7,025.4
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$11,454.6	\$10,688.3
	=====	=====

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended November 30,		Six Months Ended November 30,	
	2007	2006	2007	2006
	<hr/>	<hr/>	<hr/>	<hr/>
	(in millions, except per share data)			
Revenues	\$4,339.5	\$3,821.7	\$8,994.6	\$8,015.8
Cost of sales	2,418.4	2,164.6	4,986.5	4,509.5
	<hr/>	<hr/>	<hr/>	<hr/>
Gross margin	1,921.1	1,657.1	4,008.1	3,506.3
Selling and administrative expense	1,429.5	1,223.7	2,864.2	2,513.4
Interest income, net	23.1	14.1	47.7	27.2
Other income (expense), net	0.9	(0.2)	(5.7)	3.0
	<hr/>	<hr/>	<hr/>	<hr/>
Income before income taxes	515.6	447.3	1,185.9	1,023.1
Income taxes (Note 5)	156.2	121.7	256.8	320.3
	<hr/>	<hr/>	<hr/>	<hr/>
Net income	\$ 359.4	\$ 325.6	\$ 929.1	\$ 702.8
	=====	=====	=====	=====
Basic earnings per common share (Note 8)	\$ 0.72	\$ 0.65	\$ 1.86	\$ 1.40
	=====	=====	=====	=====
Diluted earnings per common share (Note 8)	\$ 0.71	\$ 0.64	\$ 1.83	\$ 1.38
	=====	=====	=====	=====
Dividends declared per common share	\$ 0.23	\$ 0.185	\$ 0.415	\$ 0.34

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended November 30,	
	2007	2006
	(in millions)	
Cash provided (used) by operations:		
Net income	\$ 929.1	\$ 702.8
Income charges (credits) not affecting cash:		
Depreciation	148.7	135.4
Deferred income taxes	(108.4)	42.1
Stock-based compensation (Note 7)	90.3	91.7
Amortization and other	8.7	6.9
Changes in certain working capital components and other assets and liabilities:		
(Increase) decrease in accounts receivable	(13.9)	38.1
Increase in inventories	(27.9)	(98.4)
Increase in prepaid expenses and other assets	(80.3)	(230.8)
Increase (decrease) in accounts payable, accrued liabilities and income taxes payable	3.6	(146.2)
	<u>949.9</u>	<u>541.6</u>
Cash provided (used) by investing activities:		
Purchases of investments	(678.8)	(913.0)
Maturities of investments	1,085.1	1,468.0
Additions to property, plant and equipment	(201.9)	(155.1)
Proceeds from the sale of property, plant and equipment	0.4	0.4
Increase in other assets and liabilities, net	(10.4)	(10.4)
	<u>194.4</u>	<u>389.9</u>
Cash provided (used) by financing activities:		
Reductions in long-term debt, including current portion	(27.8)	(252.9)
Increase in notes payable	7.3	13.5
Proceeds from exercise of options and other stock issuances	211.6	180.5
Excess tax benefits from stock option exercises	29.2	31.6

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Repurchase of common stock	(606.8)	(619.4)
Dividends on common stock	(185.1)	(157.0)
	(571.6)	(803.7)
Cash used by financing activities		
	41.1	20.9
Effect of exchange rate changes on cash		
	613.8	148.7
Net increase in cash and equivalents	1,856.7	954.2
Cash and equivalents, beginning of period		
	\$2,470.5	\$1,102.9
Cash and equivalents, end of period	=====	=====

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

NIKE, Inc.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - Summary of Significant Accounting Policies:

##### Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end condensed consolidated balance sheet data as of May 31, 2007 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the three months and six months ended November 30, 2007 are not necessarily indicative of results to be expected for the entire year.

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

##### Recently Adopted Accounting Standards:

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The Company adopted the provisions of FIN 48 on June 1, 2007. See Note 5 for further discussion.

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" ("EITF 06-2"). EITF 06-2

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clarifies recognition guidance on the accrual of employees' rights to compensated absences under a sabbatical or other similar benefit arrangement. The adoption of EITF 06-2 on June 1, 2007 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

### Recently Issued Accounting Standards:

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 for financial assets and liabilities are effective for the fiscal year beginning June 1, 2008 and the provisions of FAS 157 for non financial assets and liabilities are effective for the fiscal year beginning June 1, 2009. The Company is currently evaluating the impact of the provisions of FAS 157.

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

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

### NOTE 2 - Inventories:

Inventory balances of \$2,223.7 million and \$2,121.9 million at November 30, 2007 and May 31, 2007, respectively, were substantially all finished goods.

### NOTE 3 - Identifiable Intangible Assets and Goodwill:

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of November 30, 2007 and May 31, 2007:

November 30, 2007			May 31, 2007		
Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

(in millions)

Amortized intangible assets:

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Patents	\$ 47.7	\$ (14.0)	\$ 33.7	\$ 44.1	\$ (12.3)	\$ 31.8
Trademarks	51.0	(20.0)	31.0	49.8	(17.5)	32.3
Other	21.6	(18.1)	3.5	21.6	(17.3)	4.3
	<u>\$ 120.3</u>	<u>\$ (52.1)</u>	<u>\$ 68.2</u>	<u>\$ 115.5</u>	<u>\$ (47.1)</u>	<u>\$ 68.4</u>
	=====	=====		=====	=====	
Unamortized intangible assets - Trademarks			\$ 341.5			\$ 341.5
Identifiable intangible assets, net			<u>\$ 409.7</u>			<u>\$ 409.9</u>
			=====			=====
Goodwill			\$ 130.8			\$ 130.8
			=====			=====

Amortization expense, which is included in selling and administrative expense, was \$2.4 million for both the three-month periods ended November 30, 2007 and 2006, and \$5.0 million and \$4.9 million for the six-month periods ended November 30, 2007 and 2006, respectively. The estimated amortization expense for intangible assets subject to amortization for each of the years ending May 31, 2008 through May 31, 2012 are as follows: 2008: \$10.1 million; 2009: \$9.8 million; 2010: \$9.2 million; 2011: \$8.7 million; 2012: \$7.9 million.

NOTE 4 ? Accrued Liabilities:

Accrued liabilities include the following:

	November 30, 2007	May 31, 2007
	<u>                    </u>	<u>                    </u>
	(in millions)	
Compensation and benefits, excluding taxes	\$395.9	\$451.6
Fair value of derivatives	225.1	90.5
Taxes other than income taxes	149.6	133.4
Endorser compensation	141.8	139.9
Advertising and marketing	124.3	70.6
Dividends payable	114.4	92.9
Import and logistics costs	65.0	81.4
Other <sup>1</sup>	285.3	243.1
	<u>\$1,501.4</u>	<u>\$1,303.4</u>
	=====	=====

1 Other consists of various accrued expenses and no individual item accounted for more than \$50 million of the balance at November 30, 2007 and May 31, 2007.

NOTE 5 - Income Taxes:

The effective tax rate for the six months ended November 30, 2007 was

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21.7%. Over the last few years, several international entities generated losses for which the Company did not recognize offsetting tax benefits because the realization of those benefits was uncertain. The necessary steps to realize these benefits have now been taken resulting in a one-time reduction of the effective tax rate for the six months ended November 30, 2007 of 8.9 percentage points. Also reflected in the effective tax rate for the six months ended November 30, 2007 is a reduction in our on-going effective tax rate resulting from our operations outside of the United States; our tax rates on these operations are generally lower than the U.S. statutory rate.

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

At the adoption date of June 1, 2007, the Company had \$135.0 million of total unrecognized tax benefits, including related interest and penalties, \$52.0 million of which would affect the Company's effective tax rate if recognized in future periods. During the six months ended November 30, 2007, the total gross unrecognized tax benefits increased \$38.1 million, primarily related to tax positions taken during the current and prior fiscal years, including the accrual of the related interest and penalties. As of November 30, 2007 the total gross unrecognized tax benefits were \$173.1 million. The Company does not anticipate that total unrecognized tax benefits will change significantly within the next 12 months.

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

The Company recognizes interest and penalties related to income tax matters in income tax expense. Upon adoption at June 1, 2007, the Company had \$32.0 million accrued for interest and penalties related to uncertain tax positions. The liability for payment of interest and penalties increased \$8.8 million during the six months ended November 30, 2007. As of November 30, 2007, accrued interest and penalties related to uncertain tax positions was \$40.8 million.

### NOTE 6 - Comprehensive Income:

Comprehensive income, net of taxes, is as follows:

Three Months Ended  
November 30,

Six Months Ended  
November 30,



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	2007	2006	2007	2006
	-----	-----	-----	-----
	(in millions)			
Net income	\$359.4	\$325.6	\$929.1	\$702.8
Other comprehensive income:				
Change in cumulative translation adjustment and other	111.9	41.0	137.7	39.0
Changes due to cash flow hedging instruments:				
Net loss on hedge derivatives	(100.5)	(38.0)	(113.7)	(19.0)
Reclassification to net income of previously deferred losses related to hedge derivative instruments	13.4	2.7	27.6	1.0
	-----	-----	-----	-----
Other comprehensive income	24.8	5.7	51.6	21.0
	-----	-----	-----	-----
Total comprehensive income	\$384.2	\$331.3	\$980.7	\$723.8
	=====	=====	=====	=====

NOTE 7 - Stock-Based Compensation

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

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

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

Three Months Ended November 30,		Six Months Ended November 30,	
-----	-----	-----	-----
2007	2006	2007	2006

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	(in millions)			
Stock options <sup>1</sup>	\$22.5	\$25.9	\$83.2	\$85.4
ESPPs	2.2	1.7	3.8	3.5
Restricted stock	1.8	1.6	3.3	2.8
	-----	-----	-----	-----
Total stock-based compensation expense	\$26.5	\$29.2	\$90.3	\$91.7
	=====	=====	=====	=====

1 In accordance with FAS 123R, accelerated stock option expense is recorded for employees eligible for accelerated stock option vesting upon retirement. Accelerated stock option expense was \$0.7 million and \$1.6 million for the three months ended November 30, 2007 and 2006, respectively, and \$ 39.2 million and \$35.5 million for the six months ended November 30, 2007 and 2006, respectively. Because the Company usually grants the majority of stock options in a single grant in the first three months of each fiscal year, under FAS 123R, accelerated vesting will normally result in higher expense in the first three months of the fiscal year.

As of November 30, 2007, the Company had \$133.8 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 2.4 years.

The weighted average fair value per share of the options granted during the six months ended November 30, 2007 and 2006 as computed using the Black-Scholes pricing model was \$13.86 and \$8.77, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Six Months Ended November 30,	
	2007	2006
	-----	-----
Dividend yield	1.4%	1.6%
Expected volatility	20.4%	18.7%
Weighted-average expected life (in years)	5.0	5.0
Risk-free interest rate	4.8%	5.0%

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

NOTE 8 - Earnings Per Common Share:

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The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase an additional 6.8 million and 21.6 million shares of common stock were outstanding for the three months ended November 30, 2007 and 2006, respectively, and 6.8 million and 18.4 million shares of common stock were outstanding for the six months ended November 30, 2007 and November 30, 2006, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive.

	Three Months Ended November 30,		Six Months Ended November 30,	
	2007	2006	2007	2006
	_____	_____	_____	_____
	(in millions, except per share data)			
Determination of shares:				
Weighted average common shares outstanding	497.6	502.4	498.5	503.9
Assumed conversion of dilutive stock options and awards	8.6	4.9	8.3	4.9
	_____	_____	_____	_____
Diluted weighted average common shares outstanding	506.2	507.3	506.8	508.8
	=====	=====	=====	=====
Basic earnings per common share <sup>1</sup>	\$ 0.72	\$ 0.65	\$ 1.86	\$ 1.40
	=====	=====	=====	=====
Diluted earnings per common share	\$ 0.71	\$ 0.64	\$ 1.83	\$ 1.38
	=====	=====	=====	=====

<sup>1</sup> Basic earnings per share for the six months ended November 30, 2006 do not recalculate due to rounding.

NOTE 9 - Operating Segments:

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

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

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

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2007	2006	2007	2006
Net Revenue				
U.S.	\$1,513.4	\$1,418.0	\$3,151.8	\$3,019.9
Europe, Middle East, Africa	1,224.2	1,036.2	2,701.9	2,307.1
Asia Pacific	674.6	578.2	1,305.4	1,096.6
Americas	313.6	262.5	593.1	505.0
Other	613.7	526.8	1,242.4	1,087.2
	<u>\$4,339.5</u>	<u>\$3,821.7</u>	<u>\$8,994.6</u>	<u>\$8,015.8</u>
	=====	=====	=====	=====
Pre-tax Income				
U.S.	\$ 306.6	\$ 282.1	\$ 653.9	\$ 637.8
Europe, Middle East, Africa	230.2	167.7	605.7	478.3
Asia Pacific	174.1	145.8	333.6	250.7
Americas	68.7	61.1	126.6	110.8
Other	70.8	54.1	166.0	141.5
Corporate	(334.8)	(263.5)	(699.9)	(596.0)
	<u>\$ 515.6</u>	<u>\$ 447.3</u>	<u>\$1,185.9</u>	<u>\$1,023.1</u>
	=====	=====	=====	=====
	Nov. 30, 2007	May 31, 2007		

(in millions)

Accounts receivable, net		
U.S.	\$ 794.6	\$ 806.8
Europe, Middle East, Africa	734.3	739.1
Asia Pacific	364.9	296.6
Americas	264.8	184.1
Other	403.2	404.9

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Corporate	55.3	63.2
	\$2,617.1	\$2,494.7
	=====	=====
Inventories		
U.S.	\$ 768.9	\$ 796.0
Europe, Middle East, Africa	591.1	554.5
Asia Pacific	268.7	214.1
Americas	143.7	132.0
Other	401.2	378.7
Corporate	50.1	46.6
	\$2,223.7	\$2,121.9
	=====	=====
Property, plant and equipment, net		
U.S.	\$ 287.2	\$ 232.7
Europe, Middle East, Africa	350.5	325.4
Asia Pacific	358.2	326.1
Americas	18.0	16.9
Other	110.5	103.6
Corporate	663.7	673.6
	\$1,788.1	\$1,678.3
	=====	=====

### NOTE 10 - Commitments, Contingencies and Subsequent Events:

At November 30, 2007, the Company had letters of credit outstanding totaling \$165.6 million. These letters of credit were issued primarily for the purchase of inventory.

On October 23, 2007, the Company entered into an Implementation Agreement with Umbro Plc, a United Kingdom company, pursuant to which the Company has agreed to acquire all of the outstanding shares of Umbro Plc for 1.9306 British pounds sterling per share in cash (the "Umbro Acquisition"). The Umbro Acquisition was unanimously recommended by the Board of Umbro Plc to the shareholders. The Umbro Acquisition is subject to customary closing conditions. The proposed transaction would value Umbro Plc at approximately 282 million pounds sterling, and must be approved by the shareholders of Umbro Plc at a Court Meeting and General Meeting of Umbro Plc Shareholders to be held on January 31, 2008.

On December 21, 2007, we purchased 19.9% of the outstanding shares of Umbro Plc from Sports Direct International Plc ("Sports Direct") in a privately negotiated transaction. The Company paid Sports Direct 1.9306 British pounds sterling for each of the 29.1 million shares, for a total purchase price of 56.4 million pounds sterling (approximately \$111.9 million), inclusive of transaction fees.

Sports Direct continues to hold 10% of the outstanding shares of Umbro Plc. Sports Direct also executed and delivered to the Company an irrevocable undertaking to vote its remaining shares of Umbro Plc in favor of the Umbro Acquisition at the Court Meeting and General Meeting of Umbro Plc Shareholders on January 31, 2008. This irrevocable undertaking will remain binding in the event that a competing offer for Umbro Plc is announced.

On November 15, 2007, we announced that we had reached a definitive

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agreement to sell our Starter brand business to Iconix Brand Group, Inc. for \$60 million in cash. This transaction was completed on December 17, 2007.

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

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

#### Overview

In the second quarter of fiscal 2008, our revenues grew 14% to \$4.3 billion, net income grew 10% to \$359.4 million and we delivered diluted earnings per share of \$0.71, an 11% increase compared to the second quarter of fiscal 2007.

Income before income taxes grew 15% for the second quarter, driven by revenue growth and higher gross margins, partially offset by investments in demand creation to build our brands and operating overhead to accelerate development of NIKE-owned retail, emerging markets and our Other businesses. Net income and diluted earnings per share grew more slowly than pretax income due to a year-over-year increase in our effective tax rate, the result of a one-time benefit recognized in the prior year.

As part of our long term growth strategy, we continually evaluate our existing portfolio of businesses as well as new business opportunities to ensure the Company is investing in those businesses with the largest growth potential and highest returns. During the second quarter we entered into an agreement to acquire all of the outstanding shares of Umbro Plc., a leading United Kingdom-based global soccer brand. In addition, we entered into a definitive agreement to sell the Starter brand business, which completed in December 2007, and announced our intent to explore the sale of NIKE Bauer Hockey.

#### Results of Operations

%	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	change	2007	2006	change
(in millions, except per share data)						
Revenues	\$4,339.5	\$3,821.7	14%	\$8,994.6	\$8,015.8	12%
Cost of sales	2,418.4	2,164.6	12%	4,986.5	4,509.5	11%
Gross margin	1,921.1	1,657.1	16%	4,008.1	3,506.3	14%
Gross margin %	44.3%	43.4%		44.6%	43.7%	
Selling and administrative % of revenue	1,429.5 32.9%	1,223.7 32.0%	17%	2,864.2 31.8%	2,513.4 31.4%	14%

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Income before income taxes	515.6	447.3	15%	1,185.9	1,023.1	16%
Net income	359.4	325.6	10%	929.1	702.8	32%
Effective tax rate	30.3%	27.2%	310 bps	21.7%	31.3%	(960 bps)
Diluted earnings per share	0.71	0.64	11%	1.83	1.38	33%

### Consolidated Operating Results

#### Revenues

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	%	2007	2006	%
	change			change		
	(dollars in millions)					
Revenues	\$4,339.5	\$3,821.7	14%	\$8,994.6	\$8,015.8	12%

Changes in foreign currency exchange rates increased revenues by 4 percentage points for the second quarter and 3 percentage points for the first six months of fiscal 2008. Strong demand for NIKE brand products continued to drive revenue growth for the quarter and year-to-date periods, as all four of our geographic regions and all three of our product business units delivered revenue growth. Excluding the impact of changes in foreign currency, our international regions contributed 5 percentage points to the consolidated revenue growth for both the quarter and year-to-date periods. The U.S. Region contributed 3 percentage points of revenue growth for the quarter and 2 percentage points year-to-date. Our Other businesses, comprised of results from Cole Haan, Converse Inc., Exeter Brands Group LLC, Hurley International LLC, NIKE Bauer Hockey, and NIKE Golf contributed 2 percentage points of the consolidated constant-currency revenue growth for both the quarter and year-to-date periods.

By product group, our worldwide footwear business was particularly strong, posting 16% growth for the second quarter and adding \$295 million of incremental revenue. Apparel and equipment grew 9% and 14%, respectively, and combined, contributed \$136 million of incremental revenue for the quarter. For the first six months of fiscal 2008, our worldwide footwear business contributed \$541 million of incremental revenue, while our apparel and equipment businesses contributed \$283 million of incremental revenue.

#### Gross Margin

Three Months Ended November 30,	Six Months Ended November 30,
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	2007			2006		
	2007	2006	% change	2007	2006	% change
	(dollars in millions)					
Gross margin	\$1,921.1	\$1,657.1	16%	\$4,008.1	\$3,506.3	14%
Gross margin %	44.3%	43.4%	90bps	44.6%	43.7%	90bps

For the second quarter of fiscal 2008, the increase in gross margins versus the prior year quarter was attributable to improved footwear in-line pricing margins, margin improvement on closeout product resulting from a more favorable closeout mix and favorable hedge results, most notably in the Europe, Middle East and Africa ("EMEA") region. This increase was partially offset by increased sales discounts and lower apparel in-line pricing margins, primarily in the U.S. region.

For the year-to-date period, the primary factors contributing to the increase in the gross margin percentage versus the prior year were as follows:

- (1) Higher footwear in-line gross pricing margins, most notably in the U.S. and Asia Pacific regions; and
- (2) Favorable foreign exchange hedge results relative to the same period in the prior year, most notably in the EMEA region; offset by
- (3) Higher sales discounts, most notably in the U.S. and EMEA regions.

Selling and Administrative Expense

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	% change	2007	2006	% change
	(dollars in millions)					
Operating overhead expense	\$ 872.3	\$ 744.2	17%	\$1,753.9	\$1,531.9	14%
Demand creation expense	557.2	479.5	16%	1,110.3	981.5	13%
Selling and administrative expense	\$1,429.5	\$1,223.7	17%	\$2,864.2	2,513.4	14%
% of revenues	32.9%	32.0%	90 bps	31.8%	31.4%	40 bps

Changes in foreign currency exchange rates increased selling and administrative expense by 4 percentage points for the second quarter, and 3 percentage points for the first six months of fiscal 2008. Selling and administrative expenses are comprised of demand creation (advertising and



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promotion) and operating overhead.

Excluding changes in exchange rates, operating overhead increased 14% and 12% for the second quarter and year-to-date period, respectively, versus the prior year periods. This increase was primarily attributable to increased investments in growth drivers such as NIKE-owned retail, emerging markets, non-NIKE brands, and normal wage inflation and performance based compensation.

On a constant currency basis, demand creation expense increased 12% and 9% for the second quarter and year-to-date periods of fiscal 2008 versus the same periods in the prior year. The growth in demand creation was driven by increased spending on sports marketing investments, primarily in soccer and basketball, brand events such as the NIKE Plus Holiday campaign and increased investment in retail presentation with our wholesale accounts.

For the remainder of the fiscal year we expect selling and administrative expenses to grow faster than revenue as we accelerate demand creation spending, driven by the Beijing Olympics and European Football Championships.

Other Income (Expense), net

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	%	2007	2006	%
			change			change
	(dollars in millions)					
Other income (expense), net	\$0.9	\$ (0.2)	550%	\$ (5.7)	\$ 3.0	(290)%

Other income (expense), net is comprised substantially of gains and losses associated with the conversion of non-functional currency receivables and payables, the re-measurement of derivative instruments, disposals of fixed assets, as well as other unusual or non-recurring transactions that are outside the normal course of business. Foreign currency hedge gains and losses reported in Other income (expense), net are reflected in the Corporate line in our segment presentation of pre-tax income in the Notes to Unaudited Condensed Consolidated Financial Statements (Note 9 - Operating Segments).

For the second quarter and year-to-date periods of fiscal 2008, we estimate that the combination of currency hedge losses in Other income (expense), net and the favorable translation of foreign currency-denominated profits from international businesses resulted in a year-over-year increase in consolidated income before income taxes of approximately \$25 million and \$58 million, respectively.

Income Taxes

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%	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	change	2007	2006	change
Effective tax rate	30.3%	27.2%	310 bps	21.7%	31.3%	(960bps)

Our effective tax rate for the second quarter of fiscal year 2008 of 30.3% has increased 3.1 percentage points versus the comparable period in the prior year, primarily as the result of a European tax agreement we entered into during the three months ended November 30, 2006 and the retroactive reinstatement of the U.S. research and development tax credit signed into law in December 2006 as part of the Tax Relief and Healthcare Act of 2006. We recorded a retroactive benefit for both the European tax agreement and the U.S. research development tax credit in the second quarter of fiscal year 2007.

The effective tax rate for the six months of fiscal 2008 was 21.7%, 9.6 percentage points lower than the rate for the comparable period in the prior year. Over the last few years, several of our international entities generated losses for which we did not recognize the corresponding tax benefits, as the realization of those benefits was uncertain. In the first quarter of fiscal 2008, we took steps necessary to realize these benefits, resulting in a one-time tax benefit. Also reflected in the year-over-year effective tax rate improvement was a reduction in our on-going effective tax rate resulting from our operations outside of the United States; our effective tax rates for these operations are generally lower than the US statutory rate. We estimate that our ongoing effective tax rate for the remainder of fiscal 2008 will be in line with the second quarter rate.

### Futures Orders

Worldwide futures and advance orders for our footwear and apparel, scheduled for delivery from December 2007 through April 2008, were 13% higher than such orders reported for the comparable period of fiscal 2007. This futures growth rate is calculated based upon our forecasts of the exchange rates under which our revenues will be translated during this period, which approximate current spot rates. Changes in foreign currency exchange rates contributed 3 percentage points to futures growth versus the same period in the prior year. Excluding this currency impact, the growth in overall futures and advance orders was driven primarily by sales volume increases for both footwear and apparel. The reported futures and advance orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations and discounts can cause differences in the comparisons between futures and advance orders, and actual revenues. Moreover, a significant portion of our revenue is not derived from futures and advance orders, including at-once and closeout sales of NIKE footwear and apparel, wholesale sales of equipment, Cole Haan, Converse, Exeter Brands Group, Hurley, NIKE Bauer Hockey, NIKE Golf and retail sales across all brands.

### Operating Segments

The breakdown of revenues follows:

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	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	% change	2007	2006	% change
(in millions)						
U.S. REGION						
Footwear	\$ 983.3	\$ 879.4	12%	\$2,103.2	\$1,958.5	7%
Apparel	461.4	475.4	(3%)	889.4	906.9	(2%)
Equipment	68.7	63.2	9%	159.2	154.5	3%
TOTAL U.S.	<u>1,513.4</u>	<u>1,418.0</u>	7%	<u>3,151.8</u>	<u>3,019.9</u>	4%
EMEA REGION						
Footwear	646.7	541.4	19%	1,438.6	1,220.9	18%
Apparel	485.9	421.0	15%	1,052.9	908.0	16%
Equipment	91.6	73.8	24%	210.4	178.2	18%
TOTAL EMEA	<u>1,224.2</u>	<u>1,036.2</u>	18%	<u>2,701.9</u>	<u>2,307.1</u>	17%
ASIA PACIFIC REGION						
Footwear	334.1	277.4	20%	666.2	543.4	23%
Apparel	289.2	250.6	15%	529.7	451.5	17%
Equipment	51.3	50.2	2%	109.5	101.7	8%
TOTAL ASIA PACIFIC	<u>674.6</u>	<u>578.2</u>	17%	<u>1,305.4</u>	<u>1,096.6</u>	19%
AMERICAS REGION						
Footwear	214.3	185.1	16%	412.7	357.4	15%
Apparel	73.2	55.7	31%	131.5	106.9	23%
Equipment	26.1	21.7	20%	48.9	40.7	20%
TOTAL AMERICAS	<u>313.6</u>	<u>262.5</u>	19%	<u>593.1</u>	<u>505.0</u>	17%
	<u>3,725.8</u>	<u>3,294.9</u>	13%	<u>7,752.2</u>	<u>6,928.6</u>	12%
OTHER	613.7	526.8	16%	1,242.4	1,087.2	14%
TOTAL REVENUES	<u>\$4,339.5</u>	<u>\$3,821.7</u>	14%	<u>\$8,994.6</u>	<u>\$8,015.8</u>	12%

The breakdown of income before income taxes ("pre-tax income") follows:

Three Months Ended November 30,	Six Months Ended November 30,
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	2007	2006	%	2007	2006	%
			change			change
	(dollars in millions)					
U.S. Region	\$ 306.6	\$ 282.1	9%	\$ 653.9	\$ 637.8	3%
EMEA Region	230.2	167.7	37%	605.7	478.3	27%
Asia Pacific Region	174.1	145.8	19%	333.6	250.7	33%
Americas Region	68.7	61.1	12%	126.6	110.8	14%
Other	70.8	54.1	31%	166.0	141.5	17%
Corporate	(334.8)	(263.5)	(27%)	(699.9)	(596.0)	(17%)
Total pre-tax income	\$ 515.6	\$ 447.3	15%	\$1,185.9	\$1,023.1	16%

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

U.S. Region

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	%	2007	2006	%
			change			change
	(dollars in millions)					
Revenues						
Footwear	\$ 983.3	\$ 879.4	12%	\$2,103.2	\$1,958.5	7%
Apparel	461.4	475.4	(3%)	889.4	906.9	(2%)
Equipment	68.7	63.2	9%	159.2	154.5	3%
Total revenues	\$1,513.4	\$1,418.0	7%	\$3,151.8	\$3,019.9	4%
Pre-tax income	\$ 306.6	\$ 282.1	9%	\$ 653.9	\$ 637.8	3%

For the second quarter and first six months of fiscal 2008, the increase in U.S. footwear revenue was attributable to double digit percentage growth in unit sales, partially offset by a low-single digit decrease in the average selling price per pair. The growth in unit sales for the second quarter and first six months of fiscal 2008 versus the comparable periods in the prior year were driven by higher demand for our NIKE brand sports culture, Brand Jordan and kids products. The decrease in average selling price per pair for the second quarter and first six months

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of 2008 compared to the same periods in the prior year was primarily driven by increased discounts.

The decline in U.S. apparel revenues for the second quarter of fiscal 2008 as compared to the same period in the prior year was attributable to lower average selling prices, primarily driven by Brand Jordan and team and licensed products. For the first six months of the fiscal year, the decline in U.S. apparel revenues as compared to the same period in the prior year was primarily attributable to lower unit sales of sports culture and Brand Jordan products, partially offset by increased unit sales of sports performance products. Average selling price per unit decreased slightly, most notably for sports culture products.

The increase in pre-tax income for the second quarter of fiscal 2008 exceeded revenue growth over the same period primarily as a result of improved footwear gross pricing margins, partially offset by lower apparel and equipment gross pricing margins and higher sales discounts. Pre-tax income for the first six months of fiscal 2008 grew at a slower rate than revenue for the comparable period due to slightly lower gross margins, driven primarily by higher discounts. Selling and administrative expenses increased at a slightly slower rate than revenue, driven by an increase in demand creation investments, most notably basketball sports marketing, as well as increased operating overhead driven by investments in NIKE-owned retail, and normal wage inflation and performance based compensation.

### EMEA Region

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	%	2007	2006	%
			change			change
	(dollars in millions)					
Revenues						
Footwear	\$ 646.7	\$ 541.4	19%	\$1,438.6	\$1,220.9	18%
Apparel	485.9	421.0	15%	1,052.9	908.0	16%
Equipment	91.6	73.8	24%	210.4	178.2	18%
Total revenues	\$1,224.2	\$1,036.2	18%	\$2,701.9	\$2,307.1	17%
Pre-tax income	\$ 230.2	\$ 167.7	37%	\$ 605.7	\$ 478.3	27%

In the EMEA region, changes in currency exchange rates contributed 10 and 9 percentage points of revenue growth for the second quarter and first six months of fiscal 2008, respectively. Excluding changes in currency exchange rates, revenues increased in nearly every market in the region for the quarter and year-to-date period. The emerging markets in the region grew approximately 30% for the quarter and over 20% for the year-to-date period driven by strong results in Russia, South Africa, Turkey and Greece, while the UK grew over 10% for both the quarter and year-to-date period.

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Excluding changes in exchange rates, footwear revenues increased 9% during the second quarter and year-to-date period of fiscal 2008 as a result of double-digit percentage growth in unit sales, partially offset by a decrease in the average selling price per pair. The increase in unit sales for both the second quarter and year-to-date periods was primarily driven by higher demand for our NIKE brand sport culture and men's sports performance products, notably soccer products. The decrease in the average selling price per pair resulted from a shift in product mix from higher priced to lower priced models, most notably within running and sports culture, for both the second quarter and year-to date periods.

Excluding changes in currency rates, EMEA apparel revenue increased 6% during the second quarter, primarily as a result of increased unit sales of NIKE brand apparel combined with an increase in average selling prices. For the first six months of fiscal 2008, EMEA apparel revenue increased 8% on a constant-currency basis, driven by increased unit sales of NIKE brand apparel.

The increase in pre-tax income in the second quarter and first six months of fiscal 2008 was driven primarily by higher revenues, improved gross margins (due principally to favorable foreign currency hedge results and better inventory management), selling and administrative expense leverage and stronger European currencies.

### Asia Pacific Region

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	%	2007	2006	%
			change			change
	(dollars in millions)					
Revenues						
Footwear	\$ 334.1	\$ 277.4	20%	\$ 666.2	\$ 543.4	23%
Apparel	289.2	250.6	15%	529.7	451.5	17%
Equipment	51.3	50.2	2%	109.5	101.7	8%
Total revenues	\$ 674.6	\$ 578.2	17%	\$ 1,305.4	\$1,096.6	19%
Pre-tax income	\$ 174.1	\$ 145.8	19%	\$ 333.6	\$ 250.7	33%

In the Asia Pacific region, changes in currency exchange rates contributed 5 and 3 percentage points of revenue growth for the second quarter and first six months of fiscal 2008, respectively. While the majority of countries within the region reported sales increases for both the quarter and year-to-date periods, China was the primary driver of revenue growth, as revenues grew more than 35% for both the quarter and year-to-date periods on a currency neutral basis. The revenue growth in China was primarily due to expansion in both the number of stores selling NIKE products and sales through existing retail doors. Constant currency revenue growth in Japan was 2% for the quarter as we saw continued signs of improvement. Constant currency

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revenue in Japan has declined approximately 2% year-to-date.

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

The increase in pre-tax income in the second quarter and first six months of fiscal 2008 was driven primarily by higher revenues, improved gross margins and favorable foreign currency translation. The gross margin improvement for the quarter and first six months of the fiscal year was primarily driven by margin improvement on closeout product resulting from better inventory management and reduced warehousing costs. Selling and administrative expenses grew in line with revenue for the first six months of fiscal 2008 and at a faster rate than revenue in the second quarter. The increase in selling and administrative expenses during the second quarter was primarily attributable to demand creation investments in China. Operating overhead also increased as a result of investments in NIKE-owned retail across the region and infrastructure to support growth in China.

### Americas Region

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	%	2007	2006	%
			change			change
	(dollars in millions)					
Revenues						
Footwear	\$ 214.3	\$ 185.1	16%	\$ 412.7	\$ 357.4	15%
Apparel	73.2	55.7	31%	131.5	106.9	23%
Equipment	26.1	21.7	20%	48.9	40.7	20%
Total revenues	\$ 313.6	\$ 262.5	19%	\$ 593.1	\$ 505.0	17%
Pre-tax income	\$ 68.7	\$ 61.1	12%	\$ 126.6	\$ 110.8	14%

In the Americas region, changes in currency exchange rates contributed 5 percentage points of revenue growth for both the second quarter and first six months of fiscal 2008. Excluding changes in foreign currency exchange rates, double-digit percentage revenue growth in most markets within the region, led by Argentina and Mexico, more than offset slight sales declines in Canada for both the second quarter and year to date period.

The increase in pre-tax income for both the second quarter and first six months of fiscal 2008 was attributable to higher revenues and improved gross margins, combined with favorable foreign currency translation. These factors were partially offset by higher selling and administrative expenses

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for both the quarter and year-to-date period. The increase in selling and administrative expenses was primarily the result of higher demand creation spending around the Run Americas III campaign during the second quarter. Operating overhead expense also increased for the quarter and first six months of fiscal 2008, driven by normal wage inflation, performance based compensation and benefit costs.

### Other Businesses

	Three Months Ended November 30,			Six Months Ended November 30,		
	2007	2006	%	2007	2006	%
			change			change
	(dollars in millions)					
Revenues	\$ 613.7	\$ 526.8	16%	\$1,242.4	\$1,087.2	14%
Pre-tax income	70.8	54.1	31%	166.0	141.5	17%

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

During the second quarter and year-to-date period, growth at Converse, NIKE Bauer Hockey and NIKE Golf, combined with margin improvement across most businesses drove the year-over-year increase in pre-tax income. Pre-tax income for the first six months of fiscal 2007 included a \$14.2M benefit relating to the settlement of an arbitration ruling involving Converse and a former South American licensee. Excluding this favorable settlement, fiscal 2008 year-to-date pre-tax income for our Other businesses would have increased approximately 30% versus the comparable prior year period.

As part of our long term growth strategy, we are continually evaluating our portfolio of businesses to ensure that we are investing in opportunities with the largest growth potential and highest returns. On October 23, 2007, we entered into an Implementation Agreement with Umbro Plc, a leading United Kingdom-based global soccer brand, under which we agreed to acquire all of the outstanding shares of Umbro Plc. This all-cash offer is valued at approximately 282 million pounds sterling. This acquisition is intended to significantly expand NIKE's global leadership in soccer, a key area of growth for the Company.

Following a strategic review of the Company's existing business portfolio, we concluded that the Starter and NIKE Bauer Hockey businesses did not align with our long-term growth priorities. On November 15, 2007, we announced that we had reached a definitive agreement to sell the Starter brand business to Iconix Brand Group, Inc. for \$60 million in cash. This transaction was completed on December 17, 2007. We have also announced our intent to explore the sale of NIKE Bauer Hockey. That process is still



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under way.

### Liquidity and Capital Resources

#### Cash Flow Activity

Cash provided by operations was \$949.9 million for the first six months of fiscal 2008, compared to \$541.6 million for the first six months of fiscal 2007. Our primary source of operating cash flow for the first six months of 2008 was net income of \$929.1 million. Our investment in working capital increased during the first six months of fiscal 2008 primarily due to an increase in prepaid expenses due to timing of payments and an increase in inventory receipts to support growth in the business.

Cash provided by investing activities was \$194.4 million for the first six months of fiscal 2008, compared to \$389.9 million provided in the first six months of fiscal 2007. The decrease versus fiscal 2007 was primarily due to lower net maturities of short-term investments (maturities net of purchases) as we liquidated more short-term investments for share repurchases in fiscal 2007.

Cash used in financing activities was \$571.6 million for the first six months of fiscal 2008, compared to \$803.7 million used in the first six months of fiscal 2007. Cash used in fiscal 2007 was higher primarily due to the \$250 million repayment of corporate bonds in fiscal 2007.

In the second quarter of fiscal 2008, we purchased 4.8 million shares of NIKE's Class B common stock for \$292.8 million, bringing total purchases for the first six months of fiscal 2008 to 10.6 million shares at a cost of \$614.2 million. As of the end of the second quarter of fiscal 2008, we have now repurchased 28.6 million shares for \$1,426.9 million under the \$3 billion program approved by our Board of Directors in June 2006. We expect to fund share repurchases from operating cash flow, excess cash, and/or debt. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

On October 23, 2007, we entered into an Implementation Agreement with Umbro Plc, a United Kingdom company, under which we agreed (the "Umbro Acquisition") to acquire all of the outstanding shares of Umbro Plc for 1.9306 British pounds sterling per share in cash. The Umbro Acquisition was unanimously recommended by the Board of Umbro Plc to the shareholders. The Umbro Acquisition is subject to customary closing conditions. The proposed transaction would value Umbro Plc at approximately 282 million pounds sterling. For additional information, see the Current Report on Form 8-K filed on October 25, 2007 which includes the Implementation Agreement as an exhibit.

On December 21, 2007, we purchased 19.9% of the outstanding shares of Umbro Plc from Sports Direct International Plc ("Sports Direct") in a privately negotiated transaction. We paid Sports Direct 1.9306 British pounds sterling for each of the 29.1 million shares, for a total purchase price of 56.4 million pounds sterling (approximately \$111.9 million), inclusive of transaction fees.

On November 15, 2007, we announced that we had reached a definitive agreement to sell our Starter brand to Iconix Brand Group, Inc. for \$60 million in cash. This transaction was completed on December 17, 2007.

#### Contractual Obligations

Upon adoption of Financial Accounting Standards Board ("FASB")

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Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48") on June 1, 2007, the total long term liability for uncertain tax positions was \$135.0 million. During the six months ended November 30, 2007, the total gross unrecognized tax benefits increased \$38.1 million, primarily related to tax positions taken during the current and prior fiscal years, including the accrual of the related interest and penalties. As of November 30, 2007 the total gross unrecognized tax benefits were \$173.1 million. We are not able to reasonably estimate when, or if cash payments of the long-term liability for uncertain tax positions will occur.

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

### Capital Resources

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

Liquidity is also provided by our commercial paper program, under which there was no amount outstanding at November 30, 2007 or May 31, 2007. We currently have short-term debt ratings of A1 and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

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

### Recently Adopted Accounting Standards

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

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

### Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 for financial assets and liabilities are effective for our fiscal year beginning June 1, 2008 and the provisions of FAS 157 for non financial assets and liabilities are effective for the fiscal year beginning June 1, 2009. We are currently evaluating the impact of the provisions of FAS 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 permits entities to choose to

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measure many financial instruments and certain other items at fair value. The provisions of FAS 159 are effective for the fiscal year beginning June 1, 2008. We are currently evaluating the impact of the provisions of FAS 159.

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

### Critical Accounting Policies

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

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

#### Taxes

We account for uncertain tax positions in accordance with FIN 48. On a quarterly basis, we reevaluate the probability that a tax position will be effectively sustained and the appropriateness of the amount recognized for uncertain tax positions based on factors including changes in facts or circumstances, changes in tax law, settled audit issues and new audit activity. Changes in our assessment may result in the recognition of a tax benefit or an additional charge to the tax provision in the period our assessment changes. We recognize interest and penalties related to income tax matters in income tax expense.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within

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

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of November 30, 2007.

There has been no change in the Company's internal controls over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal controls over financial reporting.

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

Certain written and oral statements, other than purely historical information including estimates, projections, statements relating to NIKE's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, made or incorporated by reference from time to time by NIKE or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "project," "will be," "will continue," "will likely result," or words or phrases of similar meaning. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by NIKE with the S.E.C., including Forms 8-K, 10-Q, and 10-K, and include, among others, the following: international, national and local general economic and market conditions; the size and growth of the overall athletic footwear, apparel, and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic footwear, apparel, and equipment for consumers and endorsers; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products, and sports; seasonal and geographic demand for NIKE products; difficulties in anticipating or forecasting changes in consumer preferences, consumer demand for NIKE products, and the various market factors described above; difficulties in implementing, operating, and maintaining NIKE's increasingly complex information systems and controls, including, without limitation, the systems related to demand and supply planning, and inventory control; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance "futures" orders may not be indicative of future revenues due to the changing mix of futures and at-once orders; the ability of NIKE to sustain, manage or forecast its growth and

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inventories; the size, timing and mix of purchases of NIKE's products; new product development and introduction; the ability to secure and protect trademarks, patents, and other intellectual property performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas and political and economic instability; changes in government regulations; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

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

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

### Part II - Other Information

#### Item 1. Legal Proceedings

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

#### Item 1A. Risk Factors

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

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

The following table presents a summary of share repurchases made by NIKE during the quarter ended November 30, 2007.

Total Number	Average	Total Number of Shares Purchased as Part of Publicly	Maximum Dollar Value of Shares that May Yet Be Purchased
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Period	Of Shares Purchased	Price Paid Per Share	Announced Plans or Programs	Under the Plans or Programs
	(in thousands)		(in thousands)	(in millions)
September 1 - 30, 2007	1,520.0	\$ 57.05	1,520.0	\$ 1,779.1
October 1 - 31, 2007	1,397.3	61.68	1,397.3	1,692.9
November 1 - 30, 2007	1,890.0	63.42	1,890.0	1,573.1
Total	4,807.3	\$ 60.90	4,807.3	

Item 4. Submission of Matters to a Vote of Security Holders

Submission of Matters to a Vote of Security Holders

The Company's annual meeting of shareholders was held on Monday, September 17, 2007, in Beaverton, Oregon. The following matters were submitted to a vote of the shareholders, the results of which are as follows:

Proposal 1 - Election of Directors:

	For	Votes Cast Withheld
Directors Elected by holders of Class A Common Stock:		
John G. Connors	114,866,721	16,003
Timothy D. Cook	114,866,722	16,002
Ralph D. DeNunzio	114,866,720	16,004
Douglas G. Houser	114,866,722	16,002
Philip H. Knight	114,866,722	16,002
Mark G. Parker	114,866,721	16,003
Johnathan A. Rodgers	114,866,722	16,002
Orin C. Smith	114,866,721	16,003
John R. Thompson, Jr.	114,866,722	16,002

Directors Elected by holders of Class B Common Stock:

Jill K. Conway	324,376,404	7,808,006
Alan B. Graf, Jr.	328,533,963	3,650,447
Jeanne P. Jackson	327,789,078	4,395,332

Proposal 2 - Approve the extension of and amendments to the NIKE, Inc. Long-Term Incentive Plan:

Class A and Class B Common Stock Voting Together:

For	Against	Abstain
431,602,092	12,927,279	2,537,761

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Proposal 3 - Ratify the appointment of PricewaterhouseCoopers LLP as Independent registered public accounting firm:

Class A and Class B Common Stock Voting Together:

For	Against	Abstain
439,993,018	4,770,944	2,303,167

### Item 6. Exhibits

#### (a) EXHIBITS:

- 2.1 Implementation Agreement dated October 23, 2007, between Umbro Plc, NIKE Vapor Ltd. and NIKE, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed October 25, 2007).
- 3.1 Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2005).
- 3.2 Third Restated Bylaws, as amended (incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K filed February 16, 2007).
- 4.1 Restated Articles of Incorporation, as amended (see Exhibit 3.1).
- 4.2 Third Restated Bylaws, as amended (see Exhibit 3.2).
- 31.1 Rule 13(a)-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13(a)-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certificate of Chief Executive Officer.
- 32.2 Section 1350 Certificate of Chief Financial Officer.

#### SIGNATURES

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

NIKE, Inc.  
an Oregon Corporation

/s/ Donald W. Blair

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Donald W. Blair  
Chief Financial Officer

DATED: January 9, 2008

