Table of Contents

NIKE, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended May 31,		
	2009	2008	2007
	(In millions, except per share data)		
Revenues	$ 19,176.1	$ 18,627.0	$ 16,325.9
Cost of sales	10,571.7	10,239.6	9,165.4
Gross margin	8,604.4	8,387.4	7,160.5
Selling and administrative expense	6,149.6	5,953.7	5,028.7
Restructuring charges (Note 16)	195.0	—	—
Goodwill impairment (Note 4)	199.3	—	—
Intangible and other asset impairment (Note 4)	202.0	—	—
Interest income, net (Notes 1, 7 and 8)	(9.5)	(77.1)	(67.2)
Other (income) expense, net (Notes 17 and 18)	(88.5)	7.9	(0.9)
Income before income taxes	1,956.5	2,502.9	2,199.9
Income taxes (Note 9)	469.8	619.5	708.4
Net income	1,486.7	1,883.4	1,491.5
Basic earnings per common share (Note 12)	$ 3.07	$ 3.80	$ 2.96
Diluted earnings per common share (Note 12)	$ 3.03	$ 3.74	$ 2.93
Dividends declared per common share	$ 0.98	$ 0.875	$ 0.71

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

Source: NIKE INC, 10-K, July 27, 2009

NIKE, INC.

CONSOLIDATED BALANCE SHEETS

	May 31, 2009	May 31, 2008
	(In millions)	
ASSETS		
Current assets:		
Cash and equivalents	$ 2,291.1	$ 2,133.9
Short-term investments	1,164.0	642.2
Accounts receivable, net (Note 1)	2,883.9	2,795.3
Inventories (Notes 1 and 2)	2,357.0	2,438.4
Deferred income taxes (Note 9)	272.4	227.2
Prepaid expenses and other current assets	765.6	602.3
Total current assets	9,734.0	8,839.3
Property, plant and equipment, net (Note 3)	1,957.7	1,891.1
Identifiable intangible assets, net (Note 4)	467.4	743.1
Goodwill (Note 4)	193.5	448.8
Deferred income taxes and other assets (Notes 9 and 18)	897.0	520.4
Total assets	$ 13,249.6	$ 12,442.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 8)	$ 32.0	$ 6.3
Notes payable (Note 7)	342.9	177.7
Accounts payable (Note 7)	1,031.9	1,287.6
Accrued liabilities (Notes 5 and 18)	1,783.9	1,761.9
Income taxes payable (Note 9)	86.3	88.0
Total current liabilities	3,277.0	3,321.5
Long-term debt (Note 8)	437.2	441.1
Deferred income taxes and other liabilities (Note 9)	842.0	854.5
Commitments and contingencies (Notes 15 and 18)	—	—
Redeemable Preferred Stock (Note 10)	0.3	0.3
Shareholders' equity:		
Common stock at stated value (Note 11):		
Class A convertible — 95.3 and 96.8 shares outstanding	0.1	0.1
Class B — 390.2 and 394.3 shares outstanding	2.7	2.7
Capital in excess of stated value	2,871.4	2,497.8
Accumulated other comprehensive income (Note 14)	367.5	251.4
Retained earnings	5,451.4	5,073.3
Total shareholders' equity	8,693.1	7,825.3
Total liabilities and shareholders' equity	$ 13,249.6	$ 12,442.7

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

Source: NIKE INC, 10-K, July 27, 2009

NIKE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended May 31,		
	2009	2008	2007
		(In millions)	
Cash provided by operations:			
Net income	$ 1,486.7	$ 1,883.4	$ 1,491.5
Income charges (credits) not affecting cash:			
Depreciation	335.0	303.6	269.7
Deferred income taxes	(294.1)	(300.6)	34.1
Stock-based compensation (Note 11)	170.6	141.0	147.7
Impairment of goodwill, intangibles and other assets (Note 4)	401.3	—	—
Gain on divestitures (Note 17)	—	(60.6)	—
Amortization and other	48.3	17.9	0.5
Changes in certain working capital components and other assets and liabilities excluding the impact of acquisition and divestitures:			
Increase in accounts receivable	(238.0)	(118.3)	(39.6)
Decrease (increase) in inventories	32.2	(249.8)	(49.5)
Decrease (increase) in prepaid expenses and other current assets	14.1	(11.2)	(60.8)
(Decrease) increase in accounts payable, accrued liabilities and income taxes payable	(220.0)	330.9	85.1
Cash provided by operations	1,736.1	1,936.3	1,878.7
Cash (used) provided by investing activities:			
Purchases of short-term investments	(2,908.7)	(1,865.6)	(2,133.8)
Maturities of short-term investments	2,390.0	2,246.0	2,516.2
Additions to property, plant and equipment	(455.7)	(449.2)	(313.5)
Disposals of property, plant and equipment	32.0	1.9	28.3
Increase in other assets, net of other liabilities	(47.0)	(21.8)	(4.3)
Settlement of net investment hedges	191.3	(76.0)	—
Acquisition of subsidiary, net of cash acquired (Note 4)	—	(571.1)	—
Proceeds from divestitures (Note 17)	—	246.0	—
Cash (used) provided by investing activities	(798.1)	(489.8)	92.9
Cash used by financing activities:			
Proceeds from issuance of long-term debt	—	—	41.8
Reductions in long-term debt, including current portion	(6.8)	(35.2)	(255.7)
Increase in notes payable	177.1	63.7	52.6
Proceeds from exercise of stock options and other stock issuances	186.6	343.3	322.9
Excess tax benefits from share-based payment arrangements	25.1	63.0	55.8
Repurchase of common stock	(649.2)	(1,248.0)	(985.2)
Dividends — common and preferred	(466.7)	(412.9)	(343.7)
Cash used by financing activities	(733.9)	(1,226.1)	(1,111.5)
Effect of exchange rate changes	(46.9)	56.8	42.4
Net increase in cash and equivalents	157.2	277.2	902.5
Cash and equivalents, beginning of year	2,133.9	1,856.7	954.2
Cash and equivalents, end of year	$ 2,291.1	$ 2,133.9	$ 1,856.7
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 46.7	$ 44.1	$ 60.0
Income taxes	765.2	717.5	601.1
Dividends declared and not paid	121.4	112.9	92.9

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

Source: NIKE INC, 10-K, July 27, 2009

Table of Contents

NIKE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock				Capital in Excess of Stated Value	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Class A		Class B					
	Shares	Amount	Shares	Amount				
	(In millions, except per share data)							
Balance at May 31, 2006	127.8	$ 0.1	384.2	$ 2.7	$ 1,447.3	$ 121.7	$ 4,713.4	$ 6,285.2
Stock options exercised			10.7		349.7			349.7
Conversion to Class B Common Stock	(10.2)		10.2					—
Repurchase of Class B Common Stock			(22.1)		(13.2)		(962.0)	(975.2)
Dividends on Common stock ($0.71 per share)							(357.2)	(357.2)
Issuance of shares to employees			1.2		30.1			30.1
Stock-based compensation (Note 11):					147.7			147.7
Forfeiture of shares from employees			(0.1)		(1.6)		(0.5)	(2.1)
Comprehensive income (Note 14):								
Net income							1,491.5	1,491.5
Other comprehensive income:								—
Foreign currency translation and other (net of tax expense of $5.4)						84.6		84.6
Net loss on cash flow hedges (net of tax benefit of $9.5)						(38.1)		(38.1)
Reclassification to net income of previously deferred losses related to hedge derivatives (net of tax benefit of $3.6)						21.4		21.4
Comprehensive income						67.9	1,491.5	1,559.4
Adoption of FAS 158 (net of tax benefit of $5.4) (Note 13):						(12.2)		(12.2)
Balance at May 31, 2007	117.6	$ 0.1	384.1	$ 2.7	$ 1,960.0	$ 177.4	$ 4,885.2	$ 7,025.4
Stock options exercised			9.1		372.2			372.2
Conversion to Class B Common Stock	(20.8)		20.8					—
Repurchase of Class B Common Stock			(20.6)		(12.3)		(1,235.7)	(1,248.0)
Dividends on Common stock ($0.875 per share)							(432.8)	(432.8)
Issuance of shares to employees			1.0		39.2			39.2
Stock-based compensation (Note 11):					141.0			141.0
Forfeiture of shares from employees			(0.1)		(2.3)		(1.1)	(3.4)
Comprehensive income (Note 14):								
Net income							1,883.4	1,883.4
Other comprehensive income:								
Foreign currency translation and other (net of tax expense of $101.6)						211.9		211.9
Realized foreign currency translation gain due to divestiture (Note 17):						(46.3)		(46.3)
Net loss on cash flow hedges (net of tax benefit of $67.7)						(175.8)		(175.8)
Net loss on net investment hedges (net of tax benefit of $25.1)						(43.5)		(43.5)
Reclassification to net income of previously deferred losses related to hedge derivatives (net of tax benefit of $49.6)						127.7		127.7
Comprehensive income						74.0	1,883.4	1,957.4
Adoption of FIN 48 (Note 9)							(15.6)	(15.6)
Adoption of EITF 06-2 Sabbaticals (net of tax benefit of $6.2)							(10.1)	(10.1)
Balance at May 31, 2008	96.8	$ 0.1	394.3	$ 2.7	$ 2,497.8	$ 251.4	$ 5,073.3	$ 7,825.3
Stock options exercised			4.0		167.2			167.2
Conversion to Class B Common Stock	(1.5)		1.5					—
Repurchase of Class B Common Stock			(10.6)		(6.3)		(632.7)	(639.0)
Dividends on Common stock ($0.98 per share)							(475.2)	(475.2)
Issuance of shares to employees			1.1		45.4			45.4
Stock-based compensation (Note 11):					170.6			170.6
Forfeiture of shares from employees			(0.1)		(3.3)		(0.7)	(4.0)
Comprehensive income (Note 14):								
Net income							1,486.7	1,486.7
Other comprehensive income:								
Foreign currency translation and other (net of tax benefit of $177.5)						(335.3)		(335.3)
Net gain on cash flow hedges (net of tax expense of $167.5)						453.6		453.6
Net gain on net investment hedges (net of tax expense of $55.4)						106.0		106.0
Reclassification to net income of previously deferred net gains related to hedge derivatives (net of tax expense of $39.6)						(108.2)		(108.2)
Comprehensive income						116.1	1,486.7	1,602.8
Balance at May 31, 2009	95.3	$ 0.1	390.2	$ 2.7	$ 2,871.4	$ 367.5	$ 5,451.4	$ 8,693.1

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

NIKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of Significant Accounting Policies

Description of Business

NIKE, Inc. is a worldwide leader in the design, marketing and distribution of athletic and sports-inspired footwear, apparel, equipment and accessories. Wholly-owned Nike subsidiaries include Cole Haan, which designs, markets and distributes dress and casual shoes, handbags, accessories and coats; Converse Inc., which designs, markets and distributes athletic and causal footwear, apparel and accessories; Hurley International LLC, which designs, markets and distributes action sports and youth lifestyle footwear, apparel and accessories; and Umbro Ltd., which designs, distributes and licenses athletic and casual footwear, apparel and equipment, primarily for the sport of soccer.

Basis of Consolidation

The consolidated financial statements include the accounts of NIKE, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated.

Recognition of Revenues

Wholesale revenues are recognized when the risks and rewards of ownership have passed to the customer, based on the terms of sale. This occurs upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale. Provisions for sales discounts, returns and miscellaneous claims from customers are made at the time of sale.

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and included in cost of sales.

Advertising and Promotion

Advertising production costs are expensed the first time the advertisement is run. Media (TV and print) placement costs are expensed in the month the advertising appears.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. Accounting for endorsement payments is based upon specific contract provisions. Generally, endorsement payments are expensed on a straight-line basis over the term of the contract after giving recognition to periodic performance compliance provisions of the contracts. Prepayments made under contracts are included in prepaid expenses or other assets depending on the period to which the prepayment applies.

Through cooperative advertising programs, the Company reimburses retail customers for certain costs of advertising the Company's products. The Company records these costs in selling and administrative expense at the point in time when it is obligated to its customers for the costs, which is when the related revenues are recognized. This obligation may arise prior to the related advertisement being run.

Total advertising and promotion expenses were $2,351.3 million, $2,308.3 million, and $1,912.4 million for the years ended May 31, 2009, 2008 and 2007, respectively. Prepaid advertising and promotion expenses recorded in prepaid expenses and other assets totaled $280.0 million and $266.7 million at May 31, 2009 and 2008, respectively.

Source: NIKE INC, 10-K, July 27, 2009

Cash and Equivalents

Cash and equivalents represent cash and short-term, highly liquid investments with maturities of three months or less at date of purchase. The carrying amounts reflected in the consolidated balance sheet for cash and equivalents approximate fair value.

Short-term Investments

Short-term investments consist of highly liquid investments, primarily commercial paper, U.S. Treasury, U.S. agency, and corporate debt securities, with maturities over three months from the date of purchase. Debt securities which the Company has the ability and positive intent to hold to maturity are carried at amortized cost, which approximates fair value. At May 31, 2009, the Company did not hold any short-term investments that were classified as held-to-maturity. Short-term investments of $124.9 million as of May 31, 2008 were classified as held-to-maturity and were primarily comprised of U.S. Treasury and U.S. agency securities.

Available-for-sale debt securities are recorded at fair value with net unrealized gains and losses reported, net of tax, in other comprehensive income, unless unrealized losses are determined to be other than temporary. The Company considers all available-for-sale securities, including those with maturity dates beyond 12 months, as available to support current operational liquidity needs and therefore classifies these securities as short-term investments within current assets on the consolidated balance sheet. As of May 31, 2009, the Company held $1,005.0 million of available-for-sale securities with maturity dates within one year and $159.0 million with maturity dates over one year and less than five years.

Investments classified as available-for-sale consist of the following at fair value:

	As of May 31,	
	2009	2008
	(In millions)	
Available-for-sale investments:		
U.S. treasury and agencies	$ 772.8	$ 194.1
Corporate commercial paper and bonds	391.2	323.2
Total available-for-sale investments	$ 1,164.0	$ 517.3

Included in interest income, net for the years ended May 31, 2009, 2008, and 2007, was interest income of $49.7 million, $115.8 million and $116.9 million, respectively, related to short-term investments and cash and equivalents.

Allowance for Uncollectible Accounts Receivable

Accounts receivable consists principally of amounts receivable from customers. We make ongoing estimates relating to the collectibility of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Accounts receivable with anticipated collection dates greater than twelve months from the balance sheet date and related allowances are considered non-current and recorded in other assets. The allowance for uncollectible accounts receivable was $110.8 million and $78.4 million at May 31, 2009 and 2008, respectively, of which $36.9 million and $36.7 million was recorded in other assets.

Source: NIKE INC, 10-K, July 27, 2009

Inventory Valuation

Inventories related to our wholesale operations are stated at lower of cost or market and valued on a first-in, first-out (“FIFO”) or moving average cost basis. Inventories related to our retail operations are stated at the lower of average cost or market using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost is calculated by applying a cost-to-retail ratio to the retail value inventories. Permanent and point of sale markdowns, when recorded, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are recorded at cost. Depreciation for financial reporting purposes is determined on a straight-line basis for buildings and leasehold improvements over 2 to 40 years and for machinery and equipment over 2 to 15 years. Computer software (including, in some cases, the cost of internal labor) is depreciated on a straight-line basis over 3 to 10 years.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets or asset groups to be used in operations whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that would necessitate an impairment assessment include a significant adverse change in the extent or manner in which an asset is used, a significant adverse change in legal factors or the business climate that could affect the value of the asset, or a significant decline in the observable market value of an asset, among others. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset groups carrying amount and its estimated fair value.

Identifiable Intangible Assets and Goodwill

In accordance with SFAS No. 142 “Goodwill and Other Intangible Assets” (“FAS 142”), the Company performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year, or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or an intangible asset with an indefinite life below its carrying value. Events or changes in circumstances that may trigger interim impairment reviews include significant changes in business climate, operating results, planned investments in the reporting unit, or an expectation that the carrying amount may not be recoverable, among other factors. The impairment test requires the Company to estimate the fair value of its reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and the Company proceeds to step two of the impairment analysis. In step two of the analysis, the Company measures and records an impairment loss equal to the excess of the carrying value of the reporting unit’s goodwill over its implied fair value should such a circumstance arise.

The Company generally bases its measurement of fair value of a reporting unit on a blended analysis of the present value of future discounted cash flows and the market valuation approach. The discounted cash flows model indicates the fair value of the reporting unit based on the present value of the cash flows that the Company expects the reporting unit to generate in the future. The Company’s significant estimates in the discounted cash flows model include: its weighted average cost of capital; long-term rate of growth and profitability of the

reporting unit's business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the reporting unit to comparable publicly traded companies in similar lines of business. Significant estimates in the market valuation approach model include identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting unit.

The Company believes the weighted use of discounted cash flows and the market valuation approach is the best method for determining the fair value of its reporting units because these are the most common valuation methodologies used within its industry; and the blended use of both models compensates for the inherent risks associated with either model if used on a stand-alone basis.

Indefinite-lived intangible assets primarily consist of acquired trade names and trademarks. In measuring the fair value for these intangible assets, the Company utilizes the relief-from-royalty method. This method assumes that trade names and trademarks have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires the Company to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital.

Foreign Currency Translation and Foreign Currency Transactions

Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income in shareholders' equity.

The Company's global subsidiaries have various assets and liabilities, primarily receivables and payables, that are denominated in currencies other than their functional currency. These balance sheet items are subject to remeasurement under SFAS No. 52, "Foreign Currency Translation," ("FAS 52"), the impact of which is recorded in other (income) expense, net, within our consolidated statements of income.

Accounting for Derivatives and Hedging Activities

The Company uses derivative financial instruments to limit exposure to changes in foreign currency exchange rates and interest rates. The Company accounts for derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted ("FAS 133"). FAS 133 establishes accounting and reporting standards for derivative instruments and requires all derivatives be recorded at fair value on the balance sheet. Changes in the fair value of derivative financial instruments are either recognized in other comprehensive income (a component of shareholders' equity), debt or net income depending on the underlying exposure being hedged and the extent to which the derivative is effective.

See Note 18 — Risk Management and Derivatives for more information on the Company's risk management program and derivatives.

Stock-Based Compensation

On June 1, 2006, the Company adopted SFAS No. 123R "Share-Based Payment" ("FAS 123R"), which requires the Company to record expense for stock-based compensation to employees using a fair value method. Under FAS 123R, the Company estimates the fair value of options granted under the NIKE, Inc. 1990 Stock Incentive Plan (the "1990 Plan") and employees' purchase rights under the Employee Stock Purchase Plans ("ESPPs") using the Black-Scholes option pricing model. The Company recognizes this fair value, net of estimated forfeitures, as selling and administrative expense in the consolidated statements of income over the vesting period using the straight-line method.

Source: NIKE INC, 10-K, July 27, 2009

NIKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company adopted the modified prospective transition method prescribed by FAS 123R, which does not require the restatement of financial results for previous periods. In accordance with this transition method, the Company's consolidated statements of income for the years ended May 31, 2009, 2008 and 2007 includes (i) amortization of outstanding stock-based compensation granted prior to, but not vested, as of June 1, 2006, based on the fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") and (ii) amortization of all stock-based awards granted subsequent to June 1, 2006, based on the fair value estimated in accordance with the provisions of FAS 123R.

To calculate the excess tax benefits available for use in offsetting future tax shortfalls as of the date of implementation, the Company is following the alternative transition method discussed in FASB Staff Position No. 123R-3, "Transition Election Relating to Accounting for the Tax Effects of Share-Based Payment Awards."

See Note 11 — Common Stock and Stock-Based Compensation for more information on the Company's stock programs.

Income Taxes

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. United States income taxes are provided currently on financial statement earnings of non-U.S. subsidiaries that are expected to be repatriated. The Company determines annually the amount of undistributed non-U.S. earnings to invest indefinitely in its non-U.S. operations. The Company recognizes interest and penalties related to income tax matters in income tax expense. See Note 9 — Income Taxes for further discussion.

Earnings Per Share

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive stock options and awards. See Note 12 — Earnings Per Share for further discussion.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to fiscal year 2009 presentation, including a reclassification to investing activities for the settlement of net investment hedges in the consolidated statement of cash flows. These reclassifications had no impact on previously reported results of operations or shareholders' equity and do not affect previously reported cash flows from operations, financing activities or net change in cash and equivalents.

Source: NIKE INC, 10-K, July 27, 2009

Recently Adopted Accounting Standards

On December 1, 2008, the Company adopted Statement of SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No.133” (“FAS 161”), which provides revised guidance for enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and the related hedged items are accounted for under FAS 133, and how derivative instruments and the related hedged items affect an entity’s financial position, financial performance and cash flows. The adoption of FAS 161 did not have an impact on the Company’s consolidated financial position or results of operations. For additional information, see Note 18 — Risk Management and Derivatives.

On June 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements” (“FAS 157”) for financial assets and liabilities, which clarifies the meaning of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under FAS 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive income when they occur. The effective date of the provisions of FAS 157 for non-financial assets and liabilities, except for items recognized at fair value on a recurring basis, was deferred by Financial Accounting Standards Board (“FASB”) Staff Position FAS 157-2 (“FSP FAS 157-2”) and are effective for the fiscal year beginning June 1, 2009. The adoption of FAS 157 for financial assets and liabilities did not have an impact on the Company’s consolidated financial position or results of operations. The adoption of FAS 157 for non-financial assets and liabilities is not expected to have an impact on the Company’s consolidated financial position or results of operations. For additional information on the fair value of financial assets and liabilities, see Note 6 — Fair Value Measurements.

Also effective June 1, 2008, the Company adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“FAS 159”), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. As of May 31, 2009, the Company has not elected the fair value option for any additional financial assets and liabilities beyond those already prescribed by accounting principles generally accepted in the United States.

In October 2008, the FASB issued Staff Position No. FAS 157-3, “Determining the Fair Value of a Financial Asset in a Market That Is Not Active” (“FSP FAS 157-3”). FSP FAS 157-3 clarifies the application of FAS 157 in a market that is not active and defines additional key criteria in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with FAS 157. FSP FAS 157-3 was effective upon issuance and the application of FSP FAS 157-3 did not have a material impact on the Company’s consolidated financial statements.

Recently Issued Accounting Standards

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“FAS 165”), which establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before financial statements are issued. The provisions of FAS 165 are effective for the quarter ending August 31, 2009. The Company does not expect the adoption will have a material impact on its consolidated financial position or results of operations.

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS 107-1 and APB 28-1”), which amends SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”, and APB Opinion No. 28, “Interim Financial

Reporting", to require disclosures about fair value of financial instruments in interim and annual reporting periods. The provisions of FSP FAS 107-1 and APB 28-1 are effective for the quarter ending August 31, 2009. The Company does not expect the adoption will have an impact on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141(R)") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("FAS 160"). These standards aim to improve, simplify, and converge international standards of accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. FAS 141(R) is effective for business combinations for which the acquisition date is on or after June 1, 2009. Generally, the effects of FAS 141(R) will depend on future acquisitions. FAS 160 is effective for the Company beginning June 1, 2009. The Company does not expect the adoption of FAS 160 will have a material impact on its consolidated financial position or results of operations.

In April 2008, the FASB issued Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS 142. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141(R), and other U.S. generally accepted accounting principles. The provisions of FSP FAS 142-3 are effective for the fiscal year beginning June 1, 2009. The Company does not expect the adoption of FSP FAS 142-3 will have a material impact on its consolidated financial position or results of operations.

Note 2 — Inventories

Inventory balances of $2,357.0 million and $2,438.4 million at May 31, 2009 and 2008, respectively, were substantially all finished goods.

Note 3 — Property, Plant and Equipment

Property, plant and equipment includes the following:

	As of May 31,	
	2009	2008
	(In millions)	
Land	$ 221.6	$ 209.4
Buildings	974.0	934.6
Machinery and equipment	2,094.3	2,005.0
Leasehold improvements	802.0	757.3
Construction in process	163.8	196.7
	4,255.7	4,103.0
Less accumulated depreciation	2,298.0	2,211.9
	$ 1,957.7	$ 1,891.1

Capitalized interest was not material for the years ended May 31, 2009, 2008 and 2007.

Source: NIKE INC, 10-K, July 27, 2009

Note 4 — Acquisition, Identifiable Intangible Assets, Goodwill and Umbro Impairment

Acquisition

On March 3, 2008, the Company completed its acquisition of 100% of the outstanding shares of Umbro, a leading United Kingdom-based global soccer brand, for a purchase price of 290.5 million British pounds sterling in cash (approximately $576.4 million), inclusive of direct transaction costs. This acquisition is intended to strengthen the Company's market position in the United Kingdom and expand NIKE's global leadership in soccer, a key area of growth for the Company. This acquisition also provides positions in emerging soccer markets such as China, Russia and Brazil. The results of Umbro's operations have been included in the Company's consolidated financial statements since the date of acquisition as part of the Company's "Other" operating segment.

The acquisition of Umbro was accounted for as a purchase business combination in accordance with SFAS No. 141 "Business Combinations." The purchase price was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their respective estimated fair values on the date of acquisition, with the remaining purchase price recorded as goodwill.

Based on our preliminary purchase price allocation at May 31, 2008, identifiable intangible assets and goodwill relating to the purchase approximated $419.5 million and $319.2 million, respectively. Goodwill recognized in this transaction is deductible for tax purposes. Identifiable intangible assets include $378.4 million for trademarks that have an indefinite life, and $41.1 million for other intangible assets consisting of Umbro's sourcing network, established customer relationships, and the United Soccer League Franchise. These intangible assets will be amortized on a straight line basis over estimated lives of 12 to 20 years.

During the quarter ended February 28, 2009, the Company finalized the purchase-price accounting for Umbro and made revisions to preliminary estimates, including valuations of tangible and intangible assets and certain contingencies, as further evaluations were completed and information was received from third parties subsequent to the acquisition date. These revisions to preliminary estimates resulted in a $12.4 million decrease in the value of identified intangible assets, primarily Umbro's sourcing network, and an $11.2 million increase in non-current liabilities, primarily related to liabilities assumed for certain contingencies and adjustments made to deferred taxes related to the fair value of assets acquired. These changes in assets acquired and liabilities assumed affect the amount of goodwill recorded.

The following table summarizes the allocation of the purchase price, including transaction costs of the acquisition, to the assets acquired and liabilities assumed at the date of acquisition based on their estimated fair values, including final purchase accounting adjustments (in millions):

	May 31, 2008 Preliminary	Adjustments	May 31, 2009 Final
Current assets	$ 87.2	—	$ 87.2
Non-current assets	90.2	—	90.2
Identified intangible assets	419.5	(12.4)	407.1
Goodwill	319.2	23.6	342.8
Current liabilities	(60.3)	—	(60.3)
Non-current liabilities	(279.4)	(11.2)	(290.6)
Net assets acquired	$ 576.4	$ —	$ 576.4

The pro forma effect of the acquisition on the combined results of operations for fiscal 2008 was not material.

Umbro Impairment

In accordance with FAS 142 "Goodwill and Other Intangible Assets," the Company performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year, or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit or intangible assets with an indefinite life below its carrying value. As a result of a significant decline in global consumer demand and continued weakness in the macroeconomic environment, as well as decisions by Company management to adjust planned investment in the Umbro brand, the Company concluded that sufficient indicators of impairment existed to require the performance of an interim assessment of Umbro's goodwill and indefinite lived intangible assets as of February 1, 2009. Accordingly, the Company performed the first step of the goodwill impairment assessment for Umbro by comparing the estimated fair value of Umbro to its carrying amount, and determined there was a potential impairment of goodwill as the carrying amount exceeded the estimated fair value. Therefore, the Company performed the second step of the assessment which compared the implied fair value of Umbro's goodwill to the book value of goodwill. The implied fair value of goodwill is determined by allocating the estimated fair value of Umbro to all of its assets and liabilities, including both recognized and unrecognized intangibles, in the same manner as goodwill was determined in the original business combination.

The Company measured the fair value of Umbro by using an equal weighting of the fair value implied by a discounted cash flow analysis and by comparisons with the market values of similar publicly traded companies. The Company believes the blended use of both models compensates for the inherent risk associated with either model if used on a stand-alone basis, and this combination is indicative of the factors a market participant would consider when performing a similar valuation. The fair value of Umbro's indefinite-lived trademark was estimated using the relief from royalty method, which assumes that the trademark has value to the extent that Umbro is relieved of the obligation to pay royalties for the benefits received from the trademark. The assessments of the Company resulted in the recognition of impairment charges of $199.3 million and $181.3 million related to Umbro's goodwill and trademark, respectively, during the third quarter ended February 28, 2009. A deferred tax benefit of $54.5 million was recognized as a result of the trademark impairment charge. In addition to the above impairment analysis, the Company determined an equity investment held by Umbro was impaired, and recognized a charge of $20.7 million related to the impairment of this investment. These charges are included in the Company's "Other" category for segment reporting purposes.

The discounted cash flow analysis calculated the fair value of Umbro using management's business plans and projections as the basis for expected cash flows for the next twelve years and a 3% residual growth rate thereafter. The Company used a weighted average discount rate of 14% in its analysis, which was derived primarily from published sources as well as our adjustment for increased market risk given current market conditions. Other significant estimates used in the discounted cash flow analysis include the rates of projected growth and profitability of Umbro's business and working capital effects. The market valuation approach indicates the fair value of Umbro based on a comparison of Umbro to publicly traded companies in similar lines of business. Significant estimates in the market valuation approach include identifying similar companies with comparable business factors such as size, growth, profitability, mix of revenue generated from licensed and direct distribution and risk of return on investment.

Holding all other assumptions constant at the test date, a 100 basis point increase in the discount rate would reduce the adjusted carrying value of Umbro's net assets by 12%.

Identified Intangible Assets and Goodwill

All goodwill balances are included in the Company's "Other" category for segment reporting purposes. The following table summarizes the Company's goodwill balance as of May 31, 2009 and 2008 (in millions):

Goodwill, May 31, 2007	$ 130.8
Acquisition of Umbro Plc	319.2
Other[1]	(1.2)
Goodwill, May 31, 2008	448.8
Purchase price adjustments	23.6
Impairment charge	(199.3)
Other[1]	(79.6)
Goodwill, May 31, 2009	$ 193.5

(1) Other consists of foreign currency translation adjustments on Umbro goodwill.

The following table summarizes the Company's identifiable intangible asset balances as of May 31, 2009 and 2008.

	May 31, 2009			May 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)					
Amortized intangible assets:						
Patents	$ 56.6	$ (17.2)	$ 39.4	$ 47.5	$ (14.4)	$ 33.1
Trademarks	37.5	(10.9)	26.6	13.2	(7.8)	5.4
Other	40.0	(19.6)	20.4	65.2	(19.7)	45.5
Total	$ 134.1	$ (47.7)	$ 86.4	$ 125.9	$ (41.9)	$ 84.0
Unamortized intangible assets — Trademarks			$ 381.0			$ 659.1
Identifiable intangible assets, net			$ 467.4			$ 743.1

The effect of foreign exchange fluctuations for the year ended May 31, 2009 reduced unamortized intangible assets by approximately $98.2 million, resulting from the strengthening of the U.S. dollar in relation to the British pound sterling.

Amortization expense, which is included in selling and administrative expense, was $11.9 million, $9.2 million and $9.9 million for the years ended May 31, 2009, 2008, and 2007, respectively. The estimated amortization expense for intangible assets subject to amortization for each of the years ending May 31, 2010 through May 31, 2014 are as follows: 2010: $12.6 million; 2011: $12.2 million; 2012: $11.5 million; 2013: $9.6 million; 2014: $7.6 million.

During the year ended May 31, 2008, the gross carrying amount of unamortized and amortized trademarks were reduced by $59.6 million and $37.5 million, respectively, as a result of the Company's divestitures of the Starter brand business and NIKE Bauer Hockey during the year ended May 31, 2008. See Note 17 — Divestitures for more information the Company's divestitures.

Note 5 — Accrued Liabilities

Accrued liabilities include the following:

	May 31,	
	2009	2008
	(In millions)	
Compensation and benefits, excluding taxes	$ 491.9	$ 538.0
Endorser compensation	237.1	203.5
Taxes other than income taxes	161.9	147.6
Restructuring charges[1]	149.6	—
Dividends payable	121.4	112.9
Advertising and marketing	97.6	121.4
Fair value of derivatives	68.9	173.3
Import and logistics costs	59.4	78.8
Other[2]	396.1	386.4
	$ 1,783.9	$ 1,761.9

(1) Accrued restructuring charges primarily consist of severance costs relating to the Company's restructuring activities that took place during the fourth quarter of fiscal 2009. See Note 16 — Restructuring Charges for more information.

(2) Other consists of various accrued expenses and no individual item accounted for more than 5% of the balance at May 31, 2009 or 2008.

Note 6 — Fair Value Measurements

Effective June 1, 2008, the Company adopted FAS 157, "Fair Value Measurements" for financial assets and liabilities. FAS 157 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). FAS 157 is applied under existing accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements.

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 in 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 stringent level of input that is significant to the fair value measurement.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Fair Value Measurements Using			Assets /Liabilities at Fair Value	Balance Sheet Classification
	Level 1	Level 2	Level 3		
	(In millions)				
Assets					
Derivatives	$ —	$ 378.7	$ —	$ 378.7	Other current assets and other long-term assets
Available-for-sale securities	240.0	1,314.8	—	1,554.8	Cash equivalents
Available-for-sale securities	467.9	696.1	—	1,164.0	Short-term investments
Total assets	$ 707.9	$ 2,389.6	$ —	$ 3,097.5	
Liabilities					
Derivatives	$ —	$ 68.9	$ —	$ 68.9	Accrued liabilities and other long-term liabilities
Total Liabilities	$ —	$ 68.9	$ —	$ 68.9	

Derivative financial instruments include foreign currency forwards, option contracts and interest rate swaps. The fair value of these derivatives contracts is determined using observable market inputs such as the forward pricing curve, currency volatilities, currency correlations, and interest rates, and considers nonperformance risk of the Company and that of its counterparties. Adjustments relating to these risks were not material for the year ended May 31, 2009.

Available-for-sale securities are primarily comprised of investments in U.S. Treasury and agency securities, corporate commercial paper and bonds. These securities are valued using market prices on both active markets (level 1) and less active markets (level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily-available pricing sources for comparable instruments.

The Company had no material Level 3 measurements as of May 31, 2009.

In accordance with the requirements of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”, the Company annually discloses the fair value of its debt, which is recorded on the consolidated balance sheets at adjusted cost. Refer to Note 8 — Long-Term Debt for additional detail.

Source: NIKE INC, 10-K, July 27, 2009

Note 7 — Short-Term Borrowings and Credit Lines

Notes payable to banks and interest-bearing accounts payable to Sojitz Corporation of America ("Sojitz America") as of May 31, 2009 and 2008, are summarized below:

	May 31,			
	2009		2008	
	Borrowings	Interest Rate	Borrowings	Interest Rate
	(In millions)			
Notes payable:				
Commercial Paper	$ 100.0	0.40%	$ —	—
U.S. operations	31.2	1.81%[1]	18.6	0.00%[1]
Non-U.S. operations	211.7	4.15%[1]	159.1	6.80%[1]
	$ 342.9		$ 177.7	
Sojitz America	$ 78.5	1.57%	$ 65.9	3.51%

(1) Weighted average interest rate includes non-interest bearing overdrafts.

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

The Company purchases through Sojitz America certain athletic footwear, apparel and equipment it acquires from non-U.S. suppliers. These purchases are for the Company's operations outside of the United States, the Europe, Middle East, and Africa Region and Japan. Accounts payable to Sojitz America are generally due up to 60 days after shipment of goods from the foreign port. The interest rate on such accounts payable is the 60-day London Interbank Offered Rate ("LIBOR") as of the beginning of the month of the invoice date, plus 0.75%.

As of May 31, 2009, the Company had $100.0 million outstanding under its commercial paper program at a weighted average interest rate of 0.40%. No borrowings were outstanding at May 31, 2008.

In December 2006, the Company entered into a $1 billion revolving credit facility with a group of banks. The facility matures in December 2012. Based on the Company's current long-term senior unsecured debt ratings of A+ and A1 from Standard and Poor's Corporation and Moody's Investor Services, respectively, the interest rate charged on any outstanding borrowings would be the prevailing LIBOR plus 0.15%. The facility fee is 0.05% of the total commitment. Under this agreement, the Company must maintain, among other things, certain minimum specified financial ratios with which the Company was in compliance at May 31, 2009. No amounts were outstanding under this facility as of May 31, 2009 or 2008.

Source: NIKE INC, 10-K, July 27, 2009

Note 8 — Long-Term Debt

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

	May 31,	
	2009	2008
	(In millions)	
5.375% Corporate Bond, payable July 8, 2009	$ 25.1	$ 25.5
5.66% Corporate Bond, payable July 23, 2012	27.4	26.1
5.4% Corporate Bond, payable August 7, 2012	16.2	15.4
4.7% Corporate Bond, payable October 1, 2013	50.0	50.0
5.15% Corporate Bonds, payable October 15, 2015	111.1	104.5
4.3% Japanese yen note, payable June 26, 2011	108.5	99.6
1.5% Japanese yen note, payable February 14, 2012	51.7	47.4
2.6% Japanese yen note, maturing August 20, 2001 through November 20, 2020	54.7	54.5
2.0% Japanese yen note, maturing August 20, 2001 through November 20, 2020	24.5	24.4
Total	469.2	447.4
Less current maturities	32.0	6.3
	$ 437.2	$ 441.1

The scheduled maturity of long-term debt in each of the years ending May 31, 2010 through 2014 are $32.0 million, $6.9 million, $167.1 million, $46.9 million and $56.9 million, at face value, respectively.

The fair value of long-term debt is estimated based upon quoted prices for similar instruments. The fair value of the Company's long-term debt, including the current portion, was approximately $456.4 million at May 31, 2009 and $450.8 million at May 31, 2008.

In fiscal years 2003 and 2004, the Company issued a total of $240 million in medium-term notes of which $215 million, at face value, were outstanding at May 31, 2009 and 2008. The outstanding notes have coupon rates that range from 4.70% to 5.66% and maturity dates ranging from July 2009 to October 2015. For each of these notes, except the $50 million note maturing in October 2013, the Company has entered into interest rate swap agreements whereby the Company receives fixed interest payments at the same rate as the notes and pays variable interest payments based on the three-month or six-month LIBOR plus a spread. Each swap has the same notional amount and maturity date as the corresponding note. At May 31, 2009, the interest rates payable on these swap agreements ranged from approximately 1.5% to 3.2%.

In June 1996, one of the Company's Japanese subsidiaries, NIKE Logistics YK, borrowed ¥10.5 billion (approximately $108.5 million as of May 31, 2009) in a private placement with a maturity of June 26, 2011. Interest is paid semi-annually. The agreement provides for early retirement of the borrowing.

In July 1999, NIKE Logistics YK assumed a total of ¥13.0 billion in loans as part of its agreement to purchase a distribution center in Japan, which serves as collateral for the loans. These loans mature in equal quarterly installments during the period August 20, 2001 through November 20, 2020. Interest is also paid quarterly. As of May 31, 2009, ¥7.7 billion (approximately $79.2 million) in loans remain outstanding.

In February 2007, NIKE Logistics YK entered into a ¥5.0 billion (approximately $51.7 million as of May 31, 2009) term loan that replaced certain intercompany borrowings and matures on February 14, 2012. The interest rate on the loan is approximately 1.5% and interest is paid semi-annually.

NIKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 9 — Income Taxes

Income before income taxes is as follows:

	Year Ended May 31,		
	2009	2008	2007
		(In millions)	
Income before income taxes:			
United States	$ 845.7	$ 713.0	$ 805.1
Foreign	1,110.8	1,789.9	1,394.8
	$ 1,956.5	$ 2,502.9	$ 2,199.9

The provision for income taxes is as follows:

	Year Ended May 31,		
	2009	2008	2007
		(In millions)	
Current:			
United States			
Federal	$ 410.1	$ 469.9	$ 352.6
State	46.1	58.4	59.6
Foreign	307.7	391.8	261.9
	763.9	920.1	674.1
Deferred:			
United States			
Federal	(251.4)	(273.0)	38.7
State	(7.9)	(5.0)	(4.8)
Foreign	(34.8)	(22.6)	0.4
	(294.1)	(300.6)	34.3
	$ 469.8	$ 619.5	$ 708.4

Source: NIKE INC, 10-K, July 27, 2009

Deferred tax assets and (liabilities) are comprised of the following:

	May 31, 2009	May 31, 2008
	(In millions)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 17.9	$ 13.1
Inventories	52.8	49.2
Sales return reserves	52.8	49.2
Deferred compensation	160.9	158.4
Stock-based compensation	93.7	55.2
Reserves and accrued liabilities	66.7	57.0
Property, plant, and equipment	—	7.9
Foreign loss carry-forwards	31.9	40.1
Foreign tax credit carry-forwards	32.7	91.9
Hedges	1.1	42.9
Undistributed earnings of foreign subsidiaries	272.9	—
Other	46.2	40.5
Total deferred tax assets	829.6	605.4
Valuation allowance	(26.0)	(40.7)
Total deferred tax assets after valuation allowance	803.6	564.7
Deferred tax liabilities:		
Undistributed earnings of foreign subsidiaries	—	(113.2)
Property, plant and equipment	(92.2)	(67.4)
Intangibles	(100.7)	(214.2)
Hedges	(86.6)	(1.3)
Other	(4.2)	(0.7)
Total deferred tax liability	(283.7)	(396.8)
Net deferred tax asset	$ 519.9	$ 167.9

At the end of fiscal 2009, the Company reported a net deferred tax asset of $272.9 million associated with its investment in certain non-U.S. subsidiaries. Prior to fiscal 2009, the Company reported a net deferred tax liability for book to tax differences in its investment in non-U.S. subsidiaries. The change to a deferred tax asset position at the end of fiscal 2009 is due primarily to the impact of the impairment of Umbro's goodwill, intangible and other assets as described in Note 4 — Acquisition, Identifiable Intangible Assets, Goodwill and Umbro Impairment.

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

	Year Ended May 31, 2009	2008	2007
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	1.2%	1.4%	1.6%
Foreign earnings	-14.9%	-12.9%	-4.1%
Other, net	2.7%	1.3%	-0.3%
Effective income tax rate	24.0%	24.8%	32.2%

The effective tax rate for the year ended May 31, 2009 of 24.0% decreased from the fiscal 2008 effective tax rate of 24.8%. The effective tax rate for the year ended May 31, 2009 was favorably impacted by a benefit associated with the impairment of goodwill, intangible, and other assets of Umbro (see Note 4 — Acquisition, Identifiable Intangible Assets, Goodwill and Umbro Impairment), the impact of the resolution of audit items and the retroactive reinstatement of the research and development tax credit. The Tax Extenders and Alternative Minimum Tax Relief Act of 2008, which was signed into law during the second quarter of fiscal 2009, reinstated the U.S. federal research and development tax credit retroactive to January 1, 2008. The effective tax rate for the year ended May 31, 2008 of 24.8% decreased from the fiscal 2007 effective tax rate of 32.2%. Over the few years preceding fiscal 2008, a number of 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 were taken in the first quarter of fiscal 2008, resulting in a one-time reduction of the effective tax rate for the year ended May 31, 2008. Also reflected in the effective tax rate for the years ended May 31, 2009 and May 31, 2008 is a reduction in our on-going effective tax rate resulting from our operations outside of the United States, as our tax rates on those operations are generally lower than the U.S. statutory rate.

The Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”) effective June 1, 2007. Upon adoption, the Company recognized an additional long-term liability of $89.4 million for unrecognized tax benefits, $15.6 million of which was recorded as a reduction to the Company’s beginning retained earnings, and the remaining $73.8 million was recorded as a reduction to the Company’s noncurrent deferred tax liability. In addition, the Company reclassified $12.2 million of unrecognized tax benefits from income taxes payable to other long term liabilities in conjunction with the adoption of FIN 48.

At the adoption date of June 1, 2007, the Company had $122.5 million of gross unrecognized tax benefits, excluding related interest and penalties, $30.7 million of which would affect the Company’s effective tax rate if recognized in future periods. Including related interest and penalties and net of federal benefit of interest and unrecognized state tax benefits, at June 1, 2007, the Company had $135.0 million of total unrecognized tax benefits, $52.0 million of which would affect the Company’s effective tax rate if recognized in future periods. As of May 31, 2009, the total gross unrecognized tax benefits, excluding related interest and penalties, were $273.9 million, $110.6 million of which would affect the Company’s effective tax rate if recognized in future periods. Total gross unrecognized tax benefits, excluding interest and penalties, as of May 31, 2008 was $251.1 million, $60.6 million of which would affect the Company’s effective tax rate if recognized in future periods. The Company does not anticipate total unrecognized tax benefits will change significantly within the next 12 months.

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

	May 31,	
	2009	2008
	(In millions)	
Unrecognized tax benefits, as of the beginning of the period	$ 251.1	$ 122.5
Gross increases related to prior period tax positions	53.2	71.6
Gross decreases related to prior period tax positions	(61.7)	(23.1)
Gross increases related to current period tax positions	71.5	87.7
Settlements	(29.3)	(13.4)
Lapse of statute of limitations	(4.1)	(0.7)
Changes due to currency translation	(6.8)	6.5
Unrecognized tax benefits, as of the end of the period	$ 273.9	$ 251.1

Source: NIKE INC, 10-K, July 27, 2009

The Company recognizes interest and penalties related to income tax matters in income tax expense. Upon adoption of FIN 48 at June 1, 2007, the Company had $32.0 million (excluding federal benefit) accrued for interest and penalties related to uncertain tax positions. The liability for payment of interest and penalties increased $2.2 million and $41.2 million during the years ended May 31, 2009 and 2008, respectively. As of May 31, 2009 and 2008, accrued interest and penalties related to uncertain tax positions was $75.4 million and $73.2 million, respectively (excluding federal benefit).

The Company is subject to taxation primarily in the United States, China and the Netherlands as well as various state and other foreign jurisdictions. The Company has concluded substantially all U.S. federal income tax matters through fiscal year 2006. The Company is currently subject to examination by the Internal Revenue Service for the 2007, 2008 and 2009 tax years. The Company's major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar year 1998 and fiscal year 2002, respectively.

The Company has indefinitely reinvested approximately $2.6 billion of the cumulative undistributed earnings of certain foreign subsidiaries. Such earnings would be subject to U.S. taxation if repatriated to the U.S. Determination of the amount of unrecognized deferred tax liability associated with the permanently reinvested cumulative undistributed earnings is not practicable.

Deferred tax assets at May 31, 2009 and 2008, respectively, were reduced by a valuation allowance relating to tax benefits of certain foreign subsidiaries with operating losses where it is more likely than not that the deferred tax assets will not be realized. The net change in the valuation allowance was a decrease of $14.7 million during fiscal 2009 and a decrease of $1.6 million during fiscal 2008.

The Company does not anticipate any foreign tax credit carry-forwards will expire. A benefit was recognized for foreign loss carry-forwards of $13.1 million at May 31, 2009. Such losses will expire as follows:

	Year Ending May 31, 2014	Indefinite
	(In millions)	
Net Operating Losses	$ 2.2	$ 10.9

During the years ended May 31, 2009, 2008, and 2007, income tax benefits attributable to employee stock-based compensation transactions of $25.4 million, $68.9 million, and $56.6 million, respectively, were allocated to shareholders' equity.

Note 10 — Redeemable Preferred Stock

Sojitz America is the sole owner of the Company's authorized Redeemable Preferred Stock, $1 par value, which is redeemable at the option of Sojitz America or the Company at par value aggregating $0.3 million. A cumulative dividend of $0.10 per share is payable annually on May 31 and no dividends may be declared or paid on the common stock of the Company unless dividends on the Redeemable Preferred Stock have been declared and paid in full. There have been no changes in the Redeemable Preferred Stock in the three years ended May 31, 2009, 2008 and 2007. As the holder of the Redeemable Preferred Stock, Sojitz America does not have general voting rights but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries, on merger, consolidation, liquidation or dissolution of the Company or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States.

Note 11 — Common Stock and Stock-Based Compensation

The authorized number of shares of Class A Common Stock, no par value, and Class B Common Stock, no par value, are 175 million and 750 million, respectively. Each share of Class A Common Stock is convertible into one share of Class B Common Stock. Voting rights of Class B Common Stock are limited in certain circumstances with respect to the election of directors.

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 132 million previously unissued shares of Class B Common Stock in connection with stock options and other awards granted under the plan. The 1990 Plan authorizes the grant of non-statutory stock options, incentive stock options, stock appreciation rights, stock bonuses and the issuance and sale of restricted stock. The exercise price for non-statutory stock options, stock appreciation rights and the grant price of restricted stock may not be less than 75% of the fair market value of the underlying shares on the date of grant. The exercise price for incentive stock options 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. 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.

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

	Year Ended May 31,		
	2009	2008	2007
		(In millions)	
Stock options[1]	$ 128.8	$ 127.0	$ 134.9
ESPPs	14.4	7.2	7.0
Restricted stock	7.9	6.8	5.8
Subtotal	151.1	141.0	147.7
Stock options and restricted stock expense — restructuring[2]	19.5	—	—
Total stock-based compensation expense	$ 170.6	$ 141.0	$ 147.7

(1) In accordance with FAS 123R, stock-based compensation expense reported during the years ended May 31, 2009, 2008 and 2007 includes $56.3 million, $40.7 million and $36.3 million, respectively, of accelerated stock-based compensation expense recorded for employees eligible for stock option vesting upon retirement.

(2) In connection with the restructuring activities that took place during the fourth quarter of fiscal 2009, the Company recognized stock-based compensation expense relating to the modification of stock option agreements, allowing for an extended post-termination exercise period, and accelerated vesting of restricted stock as part of severance packages. See Note 16 — Restructuring Charges for further details.

As of May 31, 2009, the Company had $82.3 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 2.0 years.

Source: NIKE INC, 10-K, July 27, 2009

The weighted average fair value per share of the options granted during the years ended May 31, 2009, 2008 and 2007, as computed using the Black-Scholes pricing model, was $17.13, $13.87 and $8.80, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Year Ended May 31,		
	2009	2008	2007
Dividend yield	1.5%	1.4%	1.6%
Expected volatility	32.5%	20.0%	19.0%
Weighted average expected life (in years)	5.0	5.0	5.0
Risk-free interest rate	3.4%	4.8%	5.0%

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

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

	Shares (In millions)	Weighted Average Option Price
Options outstanding May 31, 2006	40.4	$ 32.31
Exercised	(10.7)	27.55
Forfeited	(1.6)	37.17
Granted	11.6	39.54
Options outstanding May 31, 2007	39.7	$ 35.50
Exercised	(9.1)	33.45
Forfeited	(0.9)	44.44
Granted	6.9	58.50
Options outstanding May 31, 2008	36.6	$ 40.14
Exercised	(4.0)	35.70
Forfeited	(1.3)	51.19
Granted	7.5	58.17
Options outstanding May 31, 2009	38.8	$ 43.69
Options exercisable at May 31,		
2007	15.3	$ 29.52
2008	16.2	32.35
2009	21.4	36.91

The weighted average contractual life remaining for options outstanding and options exercisable at May 31, 2009 was 6.3 years and 5.0 years, respectively. The aggregate intrinsic value for options outstanding and exercisable at May 31, 2009 was $535.6 million and $433.5 million, respectively. The aggregate intrinsic value was the amount by which the market value of the underlying stock exceeded the exercise price of the options. The total intrinsic value of the options exercised during the years ended May 31, 2009, 2008 and 2007 was $108.4 million, $259.4 million and $204.9 million, respectively.

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 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 ending of the offering period. Employees purchased 1.0 million shares, 0.8 million shares, and 0.8 million shares during the years ended May 31, 2009, 2008 and 2007, respectively.

From time to time, the Company grants restricted stock and unrestricted stock to key employees under the 1990 Plan. The number of shares granted to employees during the years ended May 31, 2009, 2008 and 2007 were 75,000, 110,000 and 345,000 with weighted average values per share of $56.97, $59.50 and $39.38, respectively. Recipients of restricted shares are entitled to cash dividends and to vote their respective shares throughout the period of restriction. The value of all of the granted shares was established by the market price on the date of grant. During the years ended May 31, 2009, 2008 and 2007, the fair value of restricted shares vested was $9.9 million, $9.0 million and $5.5 million, respectively, determined as of the date of vesting.

During the year ended May 31, 2007, the Company also granted shares of stock under the Long-Term Incentive Plan (“LTIP”), adopted by the Board of Directors and approved by shareholders in September 1997. During the year ended May 31, 2007, LTIP participants agreed to amend their grant agreements to eliminate the ability to receive payments in shares of stock; shares of stock are no longer awarded. Prior to the amendment, the LTIP provided for the issuance of cash or up to 2.0 million shares of Class B Common Stock to certain executives based on performance targets established over three-year time periods. Once performance targets are achieved, cash or shares of stock are issued. The shares are immediately vested upon grant. The value of the shares is established by the market price on the date of issuance. Under the LTIP, 3,000 shares with a price of $38.84 were issued during the year ended May 31, 2007 for the plan year ended May 31, 2006. Compensation expense recognized relating to shares issued during the year ended May 31, 2007 was not material. The Company recognized $17.6 million, $35.9 million and $30.0 million of selling and administrative expense related to the cash awards during the years ended May 31, 2009, 2008 and 2007, respectively.

Note 12 — Earnings Per Share

The following represents a reconciliation from basic earnings per common share to diluted earnings per common share. Options to purchase an additional 13.2 million, 6.6 million and 9.5 million shares of common stock were outstanding at May 31, 2009, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive.

	Year Ended May 31,		
	2009	2008	2007
	(In millions, except per share data)		
Determination of shares:			
Weighted average common shares outstanding	484.9	495.6	503.8
Assumed conversion of dilutive stock options and awards	5.8	8.5	6.1
Diluted weighted average common shares outstanding	490.7	504.1	509.9
Basic earnings per common share	$ 3.07	$ 3.80	$ 2.96
Diluted earnings per common share	$ 3.03	$ 3.74	$ 2.93

Source: NIKE INC, 10-K, July 27, 2009

Note 13 — Benefit Plans

The Company has a profit sharing plan available to most U.S.-based employees. The terms of the plan call for annual contributions by the Company as determined by the Board of Directors. A subsidiary of the Company also has a profit sharing plan available to its U.S.-based employees. The terms of the plan call for annual contributions as determined by the subsidiary's executive management. Contributions of $27.6 million, $37.3 million, and $31.8 million were made to the plans and are included in selling and administrative expense for the years ended May 31, 2009, 2008 and 2007, respectively. The Company has various 401(k) employee savings plans available to U.S.-based employees. The Company matches a portion of employee contributions with common stock or cash. Company contributions to the savings plans were $37.6 million, $33.9 million, and $24.9 million for the years ended May 31, 2009, 2008 and 2007, respectively, and are included in selling and administrative expense.

The Company has pension plans in various countries worldwide. The pension plans are only available to local employees and are generally government mandated. The liability related to the unfunded pension liabilities of the plans was $82.8 million and $90.6 million at May 31, 2009 and 2008, respectively. Upon adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158") on May 31, 2007, the Company recorded a liability of $17.6 million related to the unfunded pension liabilities of the plans.

Note 14 — Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, net of tax, are as follows:

	May 31,	
	2009	2008
	(In millions)	
Cumulative translation adjustment and other	$ 64.6	$ 399.9
Net deferred gain (loss) on net investment hedge derivatives	62.5	(43.5)
Net deferred gain (loss) on cash flow hedge derivatives	240.4	(105.0)
	$ 367.5	$ 251.4

Note 15 — Commitments and Contingencies

The Company leases space for certain of its offices, warehouses and retail stores under leases expiring from one to twenty-five years after May 31, 2009. Rent expense was $397.0 million, $344.2 million and $285.2 million for the years ended May 31, 2009, 2008 and 2007, respectively. Amounts of minimum future annual rental commitments under non-cancelable operating leases in each of the five years ending May 31, 2010 through 2014 are $330.2 million, $281.3 million, $233.6 million, $195.6 million, $168.6 million, respectively, and $588.5 million in later years.

As of May 31, 2009 and 2008, the Company had letters of credit outstanding totaling $154.8 million and $193.4 million, respectively. These letters of credit were generally issued for the purchase of inventory.

In connection with various contracts and agreements, the Company provides routine indemnifications relating to the enforceability of intellectual property rights, coverage for legal issues that arise and other items that fall under the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Currently, the Company has several

Source: NIKE INC, 10-K, July 27, 2009

such agreements in place. However, based on the Company's historical experience and the estimated probability of future loss, the Company has determined that the fair value of such indemnifications is not material to the Company's financial position or results of operations.

In the ordinary course of its business, the Company is involved in various legal proceedings involving contractual and employment relationships, product liability claims, trademark rights, and a variety of other matters. The Company does not believe there are any pending legal proceedings that will have a material impact on the Company's financial position or results of operations.

Note 16 — Restructuring Charges

During the fourth quarter of fiscal 2009, the Company took necessary steps to streamline its management structure, enhance consumer focus, drive innovation more quickly to market and establish a more scalable, long-term cost structure. As a result, the Company reduced its global workforce by approximately 5% and incurred pre-tax restructuring charges of $195 million, primarily consisting of severance costs related to the workforce reduction. As nearly all of the restructuring activities were completed in the fourth quarter of fiscal 2009, the Company does not expect to recognize additional costs in future periods relating to these actions. The restructuring charge is reflected in the corporate expense line in the segment presentation of pre-tax income in Note 19 — Operating Segments and Related Information.

The activity in the restructuring accrual for the year ended May 31, 2009 is as follows (in millions):

Restructuring accrual — June 1, 2008	$ —
Severance and related costs	195.0
Cash payments	(29.4)
Non-cash stock option and restricted stock expense	(19.5)
Foreign currency translation and other	3.5
Restructuring accrual — May 31, 2009	$149.6

The accrual balance as of May 31, 2009 will be relieved throughout fiscal year 2010 and early 2011, as severance payments are completed. The restructuring accrual is included in Accrued liabilities in the Consolidated Balance Sheet.

As part of its restructuring activities, the Company reorganized its NIKE brand operations geographic structure. In fiscal 2009, 2008 and 2007, NIKE brand operations were organized into the following four geographic regions: U.S., Europe, Middle East and Africa (collectively, "EMEA"), Asia Pacific, and Americas. In the fourth quarter of 2009, the Company initiated a reorganization of the NIKE Brand business into a new operating model. As a result of this reorganization, beginning in the first quarter of fiscal 2010, the NIKE brand operations will consist of the following six geographies: North America, Western Europe, Central/Eastern Europe, Greater China, Japan, and Emerging Markets.

Note 17 — Divestitures

On December 17, 2007, the Company completed the sale of the Starter brand business to Iconix Brand Group, Inc. for $60.0 million in cash. This transaction resulted in a gain of $28.6 million during the year ended May 31, 2008.

Source: NIKE INC, 10-K, July 27, 2009

On April 17, 2008, the Company completed the sale of NIKE Bauer Hockey for $189.2 million in cash to a group of private investors (“the Buyer”). The sale resulted in a net gain of $32.0 million recorded in the fourth quarter of the year ended May 31, 2008. This gain included the recognition of a $46.3 million cumulative foreign currency translation adjustment previously included in accumulated other comprehensive income. As part of the terms of the sale agreement, the Company granted the Buyer a royalty free limited license for the use of certain NIKE trademarks for a transitional period of approximately two years. The Company deferred $41.0 million of the sale proceeds related to this license agreement, to be recognized over the license period.

The gains resulting from these divestitures are reflected in other (income) expense, net and in the corporate expense line in the segment presentation of pre-tax income in Note 19 — Operating Segments and Related Information.

Note 18 — 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 purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives to either specific firm commitments, forecasted transactions or net investments. The Company also enters into foreign exchange forwards to mitigate the change in fair value of specific assets and liabilities on the balance sheet; these are not designated as hedging instruments under FAS 133. Accordingly, changes in the fair value of hedges of recorded balance sheet positions are recognized immediately in other (income) expense, net, on the income statement together with the transaction gain or loss from the hedged balance sheet position.

Substantially all derivatives outstanding as of May 31, 2009 are designated as either cash flow, fair value or net investment hedges. All derivatives are recognized on the balance sheet at their fair value and classified based on the instrument’s maturity date. The total notional amount of outstanding derivatives as of May 31, 2009 was $7.1 billion, which is primarily comprised of cash flow hedges denominated in Euro, Japanese yen and British pound.

NIKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the fair values of derivative instruments included within the consolidated balance sheet as of May 31, 2009:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In millions)		
Derivatives designated as hedging instruments under FAS 133:				
Foreign exchange forwards and options	Prepaid expenses and other current assets	$ 270.4	Accrued liabilities	$ —
Interest rate swap contracts	Prepaid expenses and other current assets	0.1	Accrued liabilities	—
Foreign exchange forwards and options	Deferred income taxes and other assets	81.3	Deferred income taxes and other liabilities	34.6
Interest rate swap contracts	Deferred income taxes and other assets	13.7	Deferred income taxes and other liabilities	—
Total derivatives designated as hedging instruments under FAS 133		365.5		34.6
Derivatives not designated as hedging instruments under FAS 133:				
Foreign exchange forwards and options	Prepaid expenses and other current assets	$ 12.8	Accrued liabilities	$ 34.3
Foreign exchange forwards and options	Deferred income taxes and other assets	0.4	Deferred income taxes and other liabilities	—
Total derivatives not designated as hedging instruments under FAS 133		13.2		34.3
Total derivatives		$ 378.7		$ 68.9

Source: NIKE INC, 10-K, July 27, 2009

NIKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables present the amounts affecting the consolidated statement of income for year ended May 31, 2009:

Derivatives designated under FAS 133	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives[1] Year Ended May 31, 2009	Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income[1] Location of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income Into Income[1]	Year Ended May 31, 2009
		(In millions)	
Derivatives designated as cash flow hedges:			
Foreign exchange forwards and options	$ 106.3	Revenue	$ 92.7
Foreign exchange forwards and options	350.1	Cost of sales	(13.5)
Foreign exchange forwards and options	(0.4)	Selling and administrative expense	0.8
Foreign exchange forwards and options	165.1	Other income (expense)	67.8
Total designated cash flow hedges	$ 621.1		$ 147.8
Derivatives designated as net investment hedges:			
Foreign exchange forwards and options	$ 161.4	Other income (expense)	$ —

(1) For the year ended May 31, 2009, the Company recorded in other (income) expense, net an immaterial amount of ineffectiveness from cash flow hedges.

	Amount of Gain (Loss) recognized in Income on Derivatives Year Ended May 31, 2009	Location of Gain (Loss) Recognized in Income on Derivatives
	(In millions)	
Derivatives designated as fair value hedges:		
Interest rate swaps[1]	$ 1.5	Interest income (expense)
Derivatives not designated as hedging instruments under FAS 133:		
Foreign exchange forwards and options	$ (83.0)	Other income (expense)

(1) Substantially all interest rate swap agreements meet the shortcut method requirements under FAS 133; accordingly, changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt. Refer to section "Fair Value Hedges" for additional detail.

Refer to Note 5 — Accrued Liabilities for derivative instruments recorded in accrued liabilities, Note 6 — Fair Value Measurements for a description of how the above financial instruments are valued in accordance with FAS 157, Note 14 — Accumulated Other Comprehensive Income and the Consolidated Statement of Shareholders' Equity for additional information on changes in other comprehensive income for the year ended May 31, 2009.

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, including revenues, product costs, selling and administrative expenses, investments in U.S. dollar-denominated available-for-sale debt securities and payments related to intercompany transactions, will be adversely affected by changes in exchange rates. It is the Company's policy to utilize derivatives to reduce foreign exchange risks where internal netting strategies cannot be effectively employed. Hedged transactions are denominated primarily in Euro, Japanese yen and British pound. The Company hedges up to 100% of anticipated exposures typically twelve to eighteen months in advance, but has hedged as much as 34 months in advance.

All changes in fair values of outstanding cash flow hedge derivatives, except the 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. The consolidated statement of income classification of effective hedge results is the same as that of the underlying exposure. Results of hedges of revenue and product costs are recorded in revenue and cost of sales, respectively, when the underlying hedged transaction affects 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 (income) expense, net when the securities are sold. Results of hedges of anticipated intercompany transactions are recorded in other (income) expense, net when the transaction occurs.

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.

As of May 31, 2009, $132.0 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 twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on the exchange rates in effect when derivative contracts that are currently outstanding mature. As of May 31, 2009, the maximum term over which the Company is hedging exposures to the variability of cash flows for its forecasted and recorded transactions is 23 months.

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. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively.

The Company discontinues hedge accounting prospectively when (i) it determines 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); (ii) the derivative expires or is sold, terminated, or exercised; (iii) it is no longer probable that the forecasted transaction will occur; or (iv) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Source: NIKE INC, 10-K, July 27, 2009

NIKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified to net income when the forecasted transaction affects 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 net income. 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 (income) expense, net. For the years ended May 31, 2009, 2008 and 2007, the Company recorded in other (income) expense an immaterial amount of ineffectiveness from cash flow hedges.

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 May 31, 2009, all interest rate swap agreements are designated as fair value hedges of the related long-term debt and meet the shortcut method requirements under FAS 133. Accordingly, changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt. No ineffectiveness has been recorded to net income related to interest rate swaps designated as fair value hedges for the years ended May 31, 2009, 2008 and 2007.

In fiscal 2003, the Company entered into a receive-floating, pay-fixed interest rate swap agreement related to a Japanese yen denominated intercompany loan with one of the Company's Japanese subsidiaries. This interest rate swap was not designated as a hedge under FAS 133. Accordingly, changes in the fair value of the swap were recorded to net income each period through maturity as a component of interest (income) expense, net. Both the intercompany loan and the related interest rate swap matured during fiscal 2009.

Net Investment Hedges

The Company also hedges the risk of variability in foreign-currency-denominated net investments in wholly-owned international subsidiaries. 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 assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from its net investment hedges for the years ended May 31, 2009 and 2008.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. This credit risk is limited to the unrealized gains in such instruments should any of these counterparties fail to perform as contracted. 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. To manage this risk, the Company has established strict counterparty credit guidelines that are continually monitored and reported to senior management according to prescribed guidelines. The Company utilizes a portfolio of financial institutions either headquartered or operating in the same countries the Company conducts its business. As a result of the above considerations, the Company considers the risk of counterparty default to be immaterial.

Certain of the Company's derivative instruments contain credit risk related contingent features. As of May 31, 2009, the Company was in compliance with all such credit risk related contingent features. The aggregate fair value of derivative instruments with credit risk related contingent features that are in a net liability position at May 31, 2009 was $15.2 million. The Company was not required to post any collateral as a result of these contingent features.

Note 19 — Operating Segments and Related Information

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, Exeter Brands Group (whose primary business was the Starter brand business which was sold on December 17, 2007), Hurley, NIKE Bauer Hockey (through April 16, 2008), NIKE Golf, and Umbro (beginning March 3, 2008) 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."

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 Consolidated Statements of Income. Reconciling items for pre-tax income represent corporate expense items that are not allocated to the operating segments for management reporting. Corporate expense consists of unallocated general and administrative expenses, which includes expenses associated with centrally managed departments, depreciation and amortization related to the Company's corporate headquarters, unallocated insurance and benefit programs, foreign currency gains and losses, including hedge gains and losses, corporate eliminations and other items.

Additions to long-lived assets as presented in the following table represent capital expenditures.

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 reclassed to conform to fiscal 2009 presentation.

NIKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended May 31,		
	2009	2008	2007
		(In millions)	
Net Revenue			
United States	$ 6,542.9	$ 6,414.5	$ 6,131.7
Europe, Middle East and Africa	5,512.2	5,629.2	4,764.1
Asia Pacific	3,322.0	2,887.6	2,295.7
Americas	1,284.7	1,164.7	966.7
Other	2,514.3	2,531.0	2,167.7
	$ 19,176.1	$ 18,627.0	$ 16,325.9
Pre-tax Income			
United States	$ 1,337.9	$ 1,402.0	$ 1,386.1
Europe, Middle East and Africa	1,316.9	1,281.9	1,050.1
Asia Pacific	853.4	694.2	515.4
Americas	274.1	242.3	199.3
Other (1)	(196.7)	364.9	299.7
Corporate Expense (2)	(1,629.1)	(1,482.4)	(1,250.7)
	$ 1,956.5	$ 2,502.9	$ 2,199.9
Additions to Long-lived Assets			
United States	$ 95.2	$ 138.4	$ 67.3
Europe, Middle East and Africa	77.7	69.0	94.9
Asia Pacific	74.8	42.4	20.7
Americas	8.7	8.6	5.3
Other	89.6	61.5	36.0
Corporate	109.7	129.3	89.3
	$ 455.7	$ 449.2	$ 313.5
Depreciation			
United States	$ 61.4	$ 49.2	$ 45.4
Europe, Middle East and Africa	55.4	64.8	47.4
Asia Pacific	43.6	31.1	25.2
Americas	6.5	6.7	6.1
Other	37.5	28.1	28.2
Corporate	130.6	123.7	117.4
	$ 335.0	$ 303.6	$ 269.7

(1) During the year ended May 31, 2009, the Other category included a pre-tax charge of $401.3 million for the impairment of goodwill, intangible and other assets of Umbro, which was recorded in the third quarter of fiscal 2009. See Note 4 — Acquisition, Identifiable Intangible Assets, Goodwill and Umbro Impairment for more information.

(2) During the year ended May 31, 2009, Corporate expense included pre-tax charges of $195.0 million for the Company's restructuring activities, which were completed in the fourth quarter of fiscal 2009. See Note 16 — Restructuring Charges for more information.

Source: NIKE INC, 10-K, July 27, 2009

	Year Ended May 31,	
	2009	2008
	(In millions)	
Accounts Receivable, net		
United States	$ 837.2	$ 823.9
Europe, Middle East and Africa	877.1	843.0
Asia Pacific	394.6	406.1
Americas	263.6	246.0
Other	439.8	424.0
Corporate	71.6	52.3
	$ 2,883.9	$ 2,795.3
Inventories		
United States	$ 831.8	$ 834.0
Europe, Middle East and Africa	619.7	705.7
Asia Pacific	295.8	280.9
Americas	205.5	181.1
Other	371.8	396.6
Corporate	32.4	40.1
	$ 2,357.0	$ 2,438.4
Property, Plant and Equipment, net		
United States	$ 345.2	$ 318.4
Europe, Middle East and Africa	341.5	370.5
Asia Pacific	434.0	375.6
Americas	18.8	20.4
Other	163.7	126.9
Corporate	654.5	679.3
	$ 1,957.7	$ 1,891.1

Revenues by Major Product Lines. Revenues to external customers for NIKE brand products are attributable to sales of footwear, apparel and equipment. Other revenues to external customers primarily include external sales by Cole Haan, Converse, Exeter (whose primary business was the Starter brand business which was sold December 17, 2007), Hurley, NIKE Bauer Hockey (through April 16, 2008), NIKE Golf, and Umbro (beginning March 3, 2008).

	Year Ended May 31,		
	2009	2008	2007
		(In millions)	
Footwear	$ 10,306.7	$ 9,731.6	$ 8,514.0
Apparel	5,244.7	5,234.0	4,576.5
Equipment	1,110.4	1,130.4	1,067.7
Other	2,514.3	2,531.0	2,167.7
	$ 19,176.1	$ 18,627.0	$ 16,325.9

Revenues and Long-Lived Assets by Geographic Area. Geographical area information is similar to what was shown previously under operating segments with the exception of the Other activity, which has been allocated to the geographical areas based on the location where the sales originated. Revenues derived in the

Source: NIKE INC, 10-K, July 27, 2009

United States were $8,019.8 million, $7,938.5 million, and $7,593.7 million, for the years ended May 31, 2009, 2008, and 2007, respectively. The Company's largest concentrations of long-lived assets primarily consist of the Company's world headquarters and distribution facilities in the United States and distribution facilities in Japan and Belgium. Long-lived assets attributable to operations in the United States, which are comprised of net property, plant & equipment, were $1,142.6 million, $1,109.9 million, and $991.3 million at May 31, 2009, 2008, and 2007, respectively. Long-lived assets attributable to operations in Japan were $322.3 million, $303.8 million, and $260.6 million at May 31, 2009, 2008, and 2007, respectively. Long-lived assets attributable to operations in Belgium were $191.0 million, $219.1 million and $198.3 million at May 31, 2009, 2008, and 2007, respectively.

Major Customers. Revenues derived from Foot Locker, Inc. represented 9% of the Company's consolidated revenues for the years ended May 31, 2009 and 2008, and 10% for the year ended May 31, 2007. Sales to this customer are included in all segments of the Company.

Item 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure*

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

Item 9A. *Controls and Procedures*

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

We carry out a variety of on-going procedures, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of May 31, 2009.

"Management's Annual Report on Internal Control Over Financial Reporting" is included in Item 8 on page 51 of this Report.

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

Item 9B. *Other Information*

No disclosure is required under this Item.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by Item 401 of Regulation S-K regarding directors is included under “Election of Directors” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding executive officers is included under “Executive Officers of the Registrant” in Item 1 of this Report. The information required by Item 405 of Regulation S-K is included under “Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 406 of Regulation S-K is included under “Code of Business Conduct and Ethics” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Items 407(d)(4) and (d)(5) of Regulation S-K regarding the Audit Committee of the Board of Directors is included under “Board of Directors and Committees” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by Items 402, 407(e)(4) and 407(e)(5) of Regulation S-K regarding executive compensation is included under “Director Compensation for Fiscal 2009,” “Executive Compensation,” “Compensation Discussion and Analysis,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

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

The information required by Item 201(d) of Regulation S-K is included under “Equity Compensation Plans” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by Item 403 of Regulation S-K is included under “Stock Holdings of Certain Owners and Management” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by Items 404 and 407(a) of Regulation S-K is included under “Transactions with Related Persons” and “Board of Directors and Committees” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by Item 9(e) of Schedule 14A is included under “Ratification Of Independent Registered Public Accounting Firm” in the definitive Proxy Statement for our 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

Source: NIKE INC, 10-K, July 27, 2009

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

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

		Form 10-K Page No.
1.	FINANCIAL STATEMENTS:	
	Report of Independent Registered Public Accounting Firm	52
	Consolidated Statements of Income for each of the three years ended May 31, 2009, May 31, 2008 and May 31, 2007	53
	Consolidated Balance Sheets at May 31, 2009 and May 31, 2008	54
	Consolidated Statements of Cash Flows for each of the three years ended May 31, 2009, May 31, 2008 and May 31, 2007	55
	Consolidated Statements of Shareholders' Equity for each of the three years ended May 31, 2009, May 31, 2008 and May 31, 2007	56
	Notes to Consolidated Financial Statements	57
2.	FINANCIAL STATEMENT SCHEDULE:	
	II — Valuation and Qualifying Accounts	F-1

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3. EXHIBITS:

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 to Exhibit 3.2 to the Company's Current Report on Form 8-K filed February 20, 2007).
4.1	Restated Articles of Incorporation, as amended (see Exhibit 3.1).
4.2	Third Restated Bylaws, as amended (see Exhibit 3.2).
4.3	Indenture dated as of December 13, 1996 between the Company and Bank One Trust Company, National Association (successor in interest to The First National Bank of Chicago), as Trustee (incorporated by reference to Exhibit 4.01 to Amendment No. 1 to Registration Statement No. 333-15953 filed by the Company on November 26, 1996).
4.4	Form of Officers' Certificate relating to the Company's Fixed Rate Medium-Term Notes and the Company's Floating Rate Medium-Term Notes, form of Fixed Rate Note and form of Floating Rate Note (incorporated by reference to Exhibits 4.2, 4.3 and 4.4 of the Company's Current Report on Form 8-K filed May 29, 2002).

Source: NIKE INC, 10-K, July 27, 2009

4.5	Credit Agreement dated as of December 1, 2006 among NIKE, Inc., Bank of America, N.A., individually and as Agent, and the other banks party thereto (incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed December 6, 2006).
4.6	First Amendment to the Credit Agreement, dated August 24, 2007, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citicorp USA, Inc., as Syndication Agent, and HSBC Bank USA, N.A., The Bank of Tokyo Mitsubishi UFG, Ltd. and Deutsche Bank Securities Inc., as Co-Documentation Agents, and the other Banks named therein (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 29, 2008).
4.7	Extension and Second Amendment to the Credit Agreement, dated November 1, 2007, among NIKE, Inc., Bank of America, N.A., as Administrative Agent, Citicorp USA, Inc., as Syndication Agent, and HSBC Bank USA, N.A., The Bank of Tokyo Mitsubishi UFG, Ltd. and Deutsche Bank Securities Inc., as Co-Documentation Agents, and the other Banks named therein. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 29, 2008).
10.1	Form of Non-Statutory Stock Option Agreement for options granted to executives under the 1990 Stock Incentive Plan (applicable to option grants on or after July 17, 2009).*
10.2	Form of Non-Statutory Stock Option Agreement for options granted to non-U.S. executives under the 1990 Stock Incentive Plan (applicable to option grants on or after July 17, 2009).*
10.3	Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.4	NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2007).*
10.5	NIKE, Inc. Executive Performance Sharing Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2007).*
10.6	NIKE, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).*
10.7	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective January 1, 2009).*
10.8	NIKE, Inc. Deferred Compensation Plan (Amended and Restated effective June 1, 2004) (applicable to amounts deferred before January 1, 2005) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004).
10.9	Amendment No. 1 effective January 1, 2008 to the NIKE, Inc. Deferred Compensation Plan (June 1, 2004 Restatement).*
10.10	NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008).*
10.11	Amended and Restated Covenant Not To Compete And Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated July 24, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 24, 2008).*
10.12	Amended and Restated Covenant Not to Compete and Non-Disclosure Agreement between NIKE, Inc. and Charles D. Denson dated July 24, 2008 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 24, 2008).*

Source: NIKE INC, 10-K, July 27, 2009