NIKE INC
Form 10-Q
January 04, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended November 30, 2006
Commission file number - 1-10635

NIKE, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Yes X No .

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

Large accelerated filer X Accelerated filer Non-accelerated filer

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

Common Stock shares outstanding as of November 30, 2006 were:

Class A	63,906,694
Class B	188,089,156

251,995,850
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PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	November 30, 2006	May 31, 2006
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	$1,102.9	$ 954.2
Short-term investments	804.4	1,348.8
Accounts receivable, net	2,387.6	2,395.9
Inventories (Note 2)	2,167.2	2,076.7
Deferred income taxes	186.2	203.3
Prepaid expenses and other current assets	561.3	380.1
Total current assets	7,209.6	7,359.0
Property, plant and equipment	3,548.4	3,408.3
Less accumulated depreciation	1,875.4	1,750.6
Property, plant and equipment, net	1,673.0	1,657.7
Identifiable intangible assets, net (Note 3)	406.7	405.5
Goodwill (Note 3)	130.8	130.8
Deferred income taxes and other assets	402.1	316.6
Total assets	$9,822.2	$9,869.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 30.6	$ 255.3
Notes payable	59.2	43.4
Accounts payable	880.3	952.2
Accrued liabilities (Note 4)	1,244.1	1,286.9
Income taxes payable	71.0	85.5
Total current liabilities	2,285.2	2,623.3
Long-term debt	383.5	410.7
Deferred income taxes and other liabilities	615.1	550.1
Commitments and contingencies (Note 10)	--	--

Redeemable preferred stock	0.3	0.3
Shareholders' equity:		
Common stock at stated value:		
Class A convertible-63.9 and 63.9 million shares outstanding	0.1	0.1
Class B-188.1 and 192.1 million shares outstanding	2.7	2.7
Capital in excess of stated value	1,741.4	1,447.3
Accumulated other comprehensive income (Note 6)	142.7	121.7
Retained earnings	4,651.2	4,713.4
Total shareholders' equity	6,538.1	6,285.2
Total liabilities and shareholders' equity	$9,822.2	$9,869.6

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended November 30,		Six Months Ended November 30,	
	2006	2005	2006	2005
	(in millions, except per share data)			
Revenues	$3,821.7	$3,474.7	$8,015.8	$7,336.7
Cost of sales	2,164.6	1,963.3	4,509.5	4,077.2
Gross margin	1,657.1	1,511.4	3,506.3	3,259.5
Selling and administrative expense	1,223.7	1,054.7	2,513.4	2,159.1
Interest income, net	(14.1)	(5.7)	(27.2)	(12.1)
Other expense (income), net	0.2	(1.4)	(3.0)	(11.3)
Income before income taxes	447.3	463.8	1,023.1	1,123.8
Income taxes (Note 5)	121.7	162.7	320.3	390.4
Net income	$ 325.6	$ 301.1	$ 702.8	$ 733.4
Basic earnings per common share (Note 8)	$ 1.30	$ 1.16	$ 2.79	$ 2.82
Diluted earnings per common share (Note 8)	$ 1.28	$ 1.14	$ 2.76	$ 2.77
Dividends declared per common share	$ 0.37	$ 0.31	$ 0.68	$ 0.56

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended November 30,	
	2006	2005
	(in millions)	
Cash provided (used) by operations:		
Net income	$ 702.8	$ 733.4
Income charges (credits) not affecting cash:		
Depreciation	135.4	136.2
Deferred income taxes	42.1	5.2
Stock-based compensation (Note 7)	91.7	--
Amortization and other	6.9	6.9
Tax benefit from exercise of stock options	--	37.0
Changes in certain working capital components and other assets and liabilities:		
Decrease in accounts receivable	38.1	68.3
Increase in inventories	(98.4)	(99.3)
Increase in prepaid expenses and other assets	(230.8)	(31.0)
Decrease in accounts payable, accrued liabilities and income taxes payable	(146.2)	(118.5)
Cash provided by operations	541.6	738.2
Cash provided (used) by investing activities:		
Purchases of investments	(913.0)	(1,169.6)
Maturities of investments	1,468.0	690.2
Additions to property, plant and equipment	(155.1)	(164.7)
Proceeds from the sale of property, plant and equipment	0.4	0.6
Increase in other assets and liabilities, net	(10.4)	(8.6)
Cash provided (used) by investing activities	389.9	(652.1)
Cash provided (used) by financing activities:		
Reductions in long-term debt, including current portion	(252.9)	(3.1)
Increase in notes payable	13.5	18.1
Proceeds from exercise of options and other stock issuances	180.5	145.8
Excess tax benefits from stock option exercises	31.6	--

Repurchase of common stock	(619.4)	(382.6)
Dividends on common stock	(157.0)	(130.4)
Cash used by financing activities	(803.7)	(352.2)
Effect of exchange rate changes on cash	20.9	12.5
Net increase (decrease) in cash and equivalents	148.7	(253.6)
Cash and equivalents, beginning of period	954.2	1,388.1
Cash and equivalents, end of period	$ 1,102.9	$1,134.5

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

NIKE, Inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end condensed consolidated balance sheet data as of May 31, 2006 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the six (6) months ended November 30, 2006 are not necessarily indicative of results to be expected for the entire year.

Recently Issued Accounting Standards:

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The provisions of FIN 48 are effective for the fiscal year beginning June 1, 2007. The Company is currently evaluating the impact of the provisions of FIN 48.

In June 2006, the FASB ratified the consensus reached in Emerging Issues Task Force ("EITF") Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" ("EITF 06-2"). EITF 06-2 clarifies recognition guidance on the accrual of employees' rights to compensated absences under a sabbatical or other similar benefit arrangement. The provisions of EITF 06-2 are effective for the fiscal year beginning June 1, 2007 and will be applied through a cumulative effect adjustment to retained earnings. The Company has evaluated the provisions of EITF 06-2 and does not expect that the adoption will have a material impact on the Company's consolidated financial position or results of operations.

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

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158"). FAS 158 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The provisions of FAS 158 are effective as of the end of the fiscal year ending May 31, 2007. The Company has evaluated the provisions of FAS 158 and does not expect that the adoption will have a material impact on the Company's consolidated financial position or results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires public companies to quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement as material, when all relevant quantitative and qualitative factors are considered. The guidance in SAB 108 is effective for the fiscal year ending May 31, 2007. The Company is currently evaluating the impact of the provisions of SAB 108.

NOTE 2 - Inventories:

Inventory balances of $2,167.2 million and $2,076.7 million at November 30, 2006 and May 31, 2006, respectively, were substantially all finished goods.

NOTE 3 - Identifiable Intangible Assets and Goodwill:

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of November 30, 2006 and May 31, 2006:

	November 30, 2006			May 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in millions)			
Amortized intangible assets:						
Patents	$ 37.4	$ (10.9)	$ 26.5	$ 34.1	$ (10.5)	$ 23.6
Trademarks	48.4	(14.7)	33.7	46.4	(11.8)	34.6
Other	21.5	(16.5)	5.0	21.5	(15.7)	5.8

Total	$ 107.3	$ (42.1)	$ 65.2	$ 102.0	$ (38.0)	$ 64.0
Unamortized intangible assets - Trademarks			$ 341.5			$ 341.5
Identifiable intangible assets, net			$ 406.7			$ 405.5
Goodwill			$ 130.8			$ 130.8

Amortization expense, which is included in selling and administrative expense, was $2.4 million for both the three-month periods ended November 30, 2006 and 2005, and $4.9 million for both the six-month periods ended November 30, 2006 and 2005. The estimated amortization expense for intangible assets subject to amortization for each of the years ending May 31, 2007 through May 31, 2011 are as follows: 2007: $9.6 million; 2008: $9.0 million; 2009: $8.0 million; 2010: $7.5 million; 2011: $7.0 million.

NOTE 4 - Accrued Liabilities:

Accrued liabilities include the following:

	November 30, 2006	May 31, 2006
	(in millions)	
Compensation and benefits, excluding taxes	$322.9	$427.2
Taxes other than income taxes	144.5	115.1
Endorser compensation	120.7	124.7
Advertising and marketing	117.5	75.4
Fair value of derivatives	108.7	111.2
Dividends payable	93.3	79.5
Import and logistics costs	65.0	63.3
Converse arbitration1	--	51.9
Other2	271.5	238.6
	$1,244.1	$1,286.9

1 The Converse arbitration relates to a charge taken during the fourth quarter ended May 31, 2006 as a result of a contract dispute between NIKE, Inc.'s Converse subsidiary and a former South American licensee.

2 Other consists of various accrued expenses and no individual item accounted for more than $50 million of the balance at November 30, 2006 and May 31, 2006.

NOTE 5 - Income Taxes:

The effective tax rate for the three and six months ended November

30, 2006 of 27.2% and 31.3%, respectively, has decreased from the fiscal 2006 effective tax rate of 35.0%. The decrease is primarily due to a tax agreement with the Dutch tax authorities entered into during the three months ended November 30, 2006, which reduces the Company's income taxes for fiscal 2006 through fiscal 2015. A catch up adjustment for the retroactive tax benefit for fiscal 2006 and the first quarter of fiscal 2007 is reflected in the effective tax rate for the three months ended November 30, 2006.

NOTE 6 - Comprehensive Income:

Comprehensive income, net of taxes, is as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2006	2005	2006	2005
	(in millions)			
Net income	$325.6	$301.1	$702.8	$733.4
Other comprehensive income:				
Change in cumulative translation adjustment and other	41.0	(26.0)	39.0	(43.3)
Changes due to cash flow hedging instruments:				
Net gain (loss) on hedge derivatives	(38.0)	55.4	(19.0)	97.4
Reclassification to net income of previously deferred (gains) and losses related to hedge derivative instruments	2.7	(8.4)	1.0	(0.7)
Other comprehensive income	5.7	21.0	21.0	53.4
Total comprehensive income	$331.3	$322.1	$723.8	$786.8

NOTE 7 - Stock-Based Compensation

In 1990, the Board of Directors adopted, and the shareholders approved, the NIKE, Inc. 1990 Stock Incentive Plan (the "1990 Plan"). The 1990 Plan provides for the issuance of up to 66 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 market price of the underlying shares on the date of grant. The exercise price for incentive stock options may not be less than the market price 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 and restricted stock at 100% of the market price on the date of grant. Substantially all grants outstanding under the 1990 Plan were granted in the first quarter of each fiscal year, vest ratably over four years, and expire 10 years from the date of grant.

In addition to the 1990 Plan, the Company gives employees the right to purchase shares at a discount to the market price under employee stock purchase plans ("ESPPs"). Employees are eligible to participate through payroll deductions 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. In each of the six months ended November 30, 2006 and 2005, employees purchased 0.2 million shares.

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 1990 Plan and employees' purchase rights under the ESPPs using the Black-Scholes option pricing model. The Company recognizes this fair value as selling and administrative expense in the Unaudited Condensed Consolidated Statements of Income over the vesting period using the straight-line method.

The following table summarizes the effects of applying FAS 123R during the six months ended November 30, 2006. The resulting stock-based compensation expense primarily relates to stock options.

	Three Months Ended November 30, 2006	Six Months Ended November 30, 2006
	(in millions, except per share data)	
Addition to selling and administrative expense	$ 27.6	$ 88.9
Reduction to income tax expense	(8.8)	(29.3)
Reduction to net income1	$ 18.8	$ 59.6
Reduction to earnings per share:		
Basic	$ 0.07	$ 0.24
Diluted	$ 0.08	$ 0.24

1 In accordance with FAS 123R, stock-based compensation expense reported during the three and six months ended November 30, 2006, includes $1.0 million, net of tax, no effect per diluted share, and $23.3 million, net of tax, or $0.09 per diluted share, respectively, of accelerated stock-based compensation expense recorded for employees eligible for accelerated stock option vesting upon retirement. Because the Company usually grants the majority of stock options in a single grant in the first three months of each fiscal year, under FAS 123R, accelerated vesting will normally result in

higher expense in the first three months of the fiscal year.

As of November 30, 2006, the Company had $181.1 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 2.5 years.

The Company has 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 Unaudited Condensed Consolidated Statement of Income for the three and six months ended November 30, 2006 includes (1) 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 (2) 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.

Prior to the adoption of FAS 123R, the Company used the intrinsic value method to account for stock options and ESPP shares in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" as permitted by FAS 123. If the Company had instead accounted for stock options and ESPP shares issued to employees using the fair value method prescribed by FAS 123 during the three and six months ended November 30, 2005, the Company's pro forma net income and pro forma earnings per share would have been reported as follows:

	Three Months Ended November 30, 2005	Six Months Ended November 30, 2005
	(in millions, except per share data)	
Net income as reported	$301.1	$733.4
Add: Stock option expense included in reported net income, net of tax	0.0	0.1
Deduct: Total stock option and ESPP expense under fair value based method for all awards, net of tax1	(19.6)	(38.5)
Pro forma net income	$281.5	$695.0
Earnings per share:		
Basic - as reported	$ 1.16	$2.82
Basic - pro forma	1.09	2.67
Diluted - as reported	1.14	2.77
Diluted - pro forma	1.07	2.64

1 Accelerated stock-based compensation expense for options subject to accelerated vesting due to employee retirement is not included in the pro forma figures shown above for the three and six months ended November

30, 2005. This disclosure reflects the expense of such options ratably over the stated vesting period or upon actual employee retirement. Had the Company recognized the fair value for such stock options on an accelerated basis in this pro forma disclosure, the Company would have recognized less stock-based compensation expense of $1.2 million, net of tax, no effect per diluted share, for the three months ended November 30, 2005 and additional stock-based compensation expense of $19.1 million, net of tax, or $0.07 per diluted share for the six months ended November 30, 2005.

The weighted average fair value per share of the options granted during the six months ended November 30, 2006 and 2005 as computed using the Black-Scholes pricing model was $17.54 and $19.35, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Six Months Ended November 30,	
	2006	2005
Dividend yield	1.6%	1.0%
Expected volatility	18.7%	20.7%
Weighted-average expected life (in years)	5.0	4.5
Risk-free interest rate	5.0%	4.0%

Expected volatility is estimated based on the implied volatility in market traded options on the Company's common stock, with a term greater than one year. 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 Company's stock option transactions during the six months ended November 30, 2006:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Aggregate Intrinsic Value
	(in millions)		(in years)	(in millions)
Options outstanding May 31, 2006	20.2	$ 64.62		
Exercised	(3.2)	53.23		
Forfeited	(0.6)	73.16		
Granted	5.8	78.89		

Options outstanding November 30, 2006	22.2	$ 69.71	7.5	$ 650.2
Options exercisable November 30, 2006	9.5	$ 58.15	5.9	$ 389.4

The aggregate intrinsic value in the table above 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 six months ended November 30, 2006 and 2005 was $107.6 million and $95.5 million, respectively.

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

	Three Months Ended November 30, 2006	Six Months Ended November 30, 2006
	(in millions)	
Stock options	$25.9	$85.4
ESPPs	1.7	3.5
Restricted stock1	1.6	2.8
Total stock-based compensation expense	$29.2	$91.7

1 The expense related to restricted stock awards was included in selling and administrative expense in prior years and was not affected by the adoption of FAS 123R.

NOTE 8 - Earnings Per Common Share:

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase an additional 10.8 million and 5.6 million shares of common stock were outstanding for the three months ended November 30, 2006 and 2005, respectively, and 9.2 million and 5.6 million shares of common stock were outstanding for the six months ended November 30, 2006 and November 30, 2005, respectively, but were not included in the computation of diluted earnings per share because the options were antidilutive.

	Three Months Ended November 30,		Six Months Ended November 30,	
	2006	2005	2006	2005
	(in millions, except per share data)			

Determination of shares:				
Weighted average common shares outstanding	251.2	259.0	252.0	260.0
Assumed conversion of dilutive stock options and awards	2.5	4.7	2.4	5.0
Diluted weighted average common shares outstanding	253.7	263.7	254.4	265.0
Basic earnings per common share	$ 1.30	$ 1.16	$ 2.79	$ 2.82
Diluted earnings per common share	$ 1.28	$ 1.14	$ 2.76	$ 2.77

NOTE 9 - Operating Segments:

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

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

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

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

	Three Months Ended November 30,	Six Months Ended November 30,

	2006	2005	2006	2005
	(in millions)			
Net Revenue				
U.S.	$1,418.0	$1,307.1	$3,019.9	$2,816.0
EUROPE, MIDDLE EAST, AFRICA	1,036.2	977.4	2,307.1	2,194.9
ASIA PACIFIC	578.2	503.3	1,096.6	962.9
AMERICAS	262.5	252.1	505.0	465.8
OTHER	526.8	434.8	1,087.2	897.1
	$3,821.7	$3,474.7	$8,015.8	$7,336.7
Pre-tax Income				
U.S.	$ 266.0	$ 265.7	$ 604.9	$ 610.9
EUROPE, MIDDLE EAST, AFRICA	158.8	194.2	461.3	524.4
ASIA PACIFIC	139.9	115.2	238.8	206.6
AMERICAS	59.8	57.4	108.2	102.0
OTHER	54.3	23.0	142.2	63.0
CORPORATE	(231.5)	(191.7)	(532.3)	(383.1)
	$ 447.3	$ 463.8	$1,023.1	$1,123.8

	Nov. 30, 2006	May 31, 2006
	(in millions)	
Accounts receivable, net		
U.S.	$ 773.8	$ 717.2
EUROPE, MIDDLE EAST, AFRICA	619.1	716.3
ASIA PACIFIC	325.7	319.7
AMERICAS	230.1	174.5
OTHER	356.1	410.0
CORPORATE	82.8	58.2
	$2,387.6	$2,395.9
Inventories		
U.S.	$ 803.1	$ 725.9
EUROPE, MIDDLE EAST, AFRICA	549.8	590.1
ASIA PACIFIC	245.5	238.3
AMERICAS	139.7	147.6
OTHER	369.2	330.5
CORPORATE	59.9	44.3
	$2,167.2	$2,076.7
Property, plant and equipment, net		
U.S.	$ 225.8	$ 219.3
EUROPE, MIDDLE EAST, AFRICA	294.2	266.6
ASIA PACIFIC	336.9	354.8
AMERICAS	16.3	17.0
OTHER	99.4	98.2
CORPORATE	700.4	701.8

	$1,673.0	$1,657.7
	=========	=========

NOTE 10 - Commitments and Contingencies:

At November 30, 2006, the Company had letters of credit outstanding totaling $149.3 million. These letters of credit were issued primarily for the purchase of inventory.

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

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

Overview

In the second quarter of fiscal 2007, revenues grew 10% to $3.8 billion, net income grew 8% to $325.6 million and we delivered diluted earnings per share of $1.28, a 12% increase versus the second quarter of fiscal 2006. During the quarter, the Company finalized a new ten-year tax agreement with the Dutch tax authorities, which will improve our cash flows and reduce our effective tax rate in fiscal 2007 and future years. The agreement provided a retroactive tax benefit for fiscal 2006 and the first quarter of fiscal 2007, which was recognized during the three months ended November 30, 2006. The Dutch tax agreement contributed $0.13 per diluted share to our results for the second quarter.

Also included in our second quarter results is an after-tax charge of $18.8 million, or approximately $0.08 per diluted share, related to stock-based compensation expense now recognized in accordance with Statement of Financial Accounting Standard ("SFAS") No. 123R "Share-Based Payment" ("FAS 123R"), which we adopted during the first quarter of fiscal 2007. Our net income for the quarter was negatively affected by higher demand creation spending compared with low spending levels last year, when our spending was heavily weighted to the fourth quarter of fiscal 2006 in support of the World Cup. Our earnings per share for the quarter grew at a higher rate than net income given lower outstanding shares due to our share repurchase program.

Results of Operations

	Three Months Ended November 30,			Six Months Ended November 30,		
%	%					
	2006	2005	change	2006	2005	change
	(in millions, except per share data)					
Revenues	$3,821.7	$3,474.7	10%	$8,015.8	$7,336.7	9%

Cost of sales	2,164.6	1,963.3	10%	4,509.5	4,077.2	11%
Gross margin	1,657.1	1,511.4	10%	3,506.3	3,259.5	8%
Gross margin %	43.4%	43.5%		43.7%	44.4%	
Selling and administrative	1,223.7	1,054.7	16%	2,513.4	2,159.1	16%
% of revenue	32.0%	30.4%		31.4%	29.4%	
Income before income taxes	447.3	463.8	-4%	1,023.1	1,123.8	-9%
Net income	325.6	301.1	8%	702.8	733.4	-4%
Diluted earnings per share	1.28	1.14	12%	2.76	2.77	0%

Reconciliation of Net Income and Diluted Earnings Per Share ("EPS")
Excluding Stock-Based Compensation Expense

% %	Three Months Ended November 30,			Six Months Ended November 30,		
	2006	2005	change	2006	2005	change
	(dollars in millions, except per share data)					
Net income, as reported	$325.6	$301.1	8%	$702.8	$733.4	-4%
Stock-based compensation expense1, net of tax of $8.8 and $29.3	18.8	--	-	59.6	--	-
Net income, excluding stock-based compensation expense2	$344.4	$301.1	14%	$762.4	$733.4	4%
Diluted EPS, as reported	$ 1.28	$ 1.14	12%	$ 2.76	$ 2.77	0%
Diluted EPS, excluding stock-based compensation expense	$ 1.36	$ 1.14	19%	$ 3.00	$ 2.77	8%

1 This charge relates to stock-based compensation associated with stock options and Employee Stock Purchase Plan ("ESPP") shares issued to employees and expensed in accordance with FAS 123R. We adopted FAS 123R on June 1, 2006 using the modified prospective transition method. While this expense was not reflected in our results of operations for the second quarter and first six months of fiscal 2006, it will continue to be reflected in future accounting periods.

2 This schedule is intended to satisfy the quantitative reconciliation for non-GAAP financial measures in accordance with Regulation G of the Securities and Exchange Commission. In addition, this schedule is provided to enhance the visibility of the underlying business trends by presenting our results for the second quarter and year-to-date period of fiscal 2007 using the same accounting policy for stock-based compensation expense applied during the comparable prior year periods.

Consolidated Operating Results

Revenues

	Three Months Ended November 30, 2006	2005	% change	Six Months Ended November 30, 2006	2005	% change
	(dollars in millions)					
Revenues	$3,821.7	$3,474.7	10%	$8,015.8	$7,336.7	9%

On a consolidated basis, changes in foreign currency exchange rates increased revenues by 1 percentage point for both the second quarter and first six months of fiscal 2007. Strong demand for NIKE brand products continued to drive revenue growth for the quarter and year-to-date period, as all four of our geographic regions and all three of our product business units delivered revenue growth. Excluding the impact of changes in foreign currency, both the U.S. region and our international regions each contributed 3 percentage points to the consolidated revenue growth for the quarter and year-to-date periods. Our Other businesses, comprised of results from Cole Haan Holdings Incorporated, Converse Inc., Exeter Brands Group LLC, Hurley International LLC, NIKE Bauer Hockey, Inc., and NIKE Golf contributed the remaining 3 percentage points of the consolidated constant-currency revenue growth for both the quarter and year-to-date period, as each business within the group posted higher revenues.

By product group, our worldwide apparel and equipment businesses were particularly strong, each posting 11% growth for the second quarter; and combined, added $140 million of incremental revenue. Footwear grew 7%, and contributed $115 million of incremental revenue for the quarter. For the first six months of fiscal 2007, our worldwide apparel and equipment businesses contributed $278 million of incremental revenue, while footwear contributed $212 million of incremental revenue.

Gross Margin

	Three Months Ended November 30, 2006	2005	% change	Six Months Ended November 30, 2006	2005	% change
	(dollars in millions)					

Gross margin	$1,657.1	$1,511.4	10%	$3,506.3	$3,259.5	8%
Gross margin %	43.4%	43.5%	-10 bps	43.7%	44.4%	-70bps

For the second quarter of fiscal 2007, gross margins remained relatively consistent with the prior year period, reflecting a slight decrease in our overall geographical region margins, partially offset by margin improvement in our Other businesses. The primary factors contributing to the year-to-date change in gross margin percentage were as follows:

(1) Lower footwear in-line net pricing margins due to:

- higher sales incentives, primarily in the Europe, Middle East and Africa ("EMEA") region;

- additional logistics costs incurred to meet strong footwear demand in the U.S. region; and

- overall higher product costs, primarily the result of higher labor costs;

- partially offset by cost reduction such as lean manufacturing and price increases on selected products.

(2) Higher gross margins for apparel, primarily during the second quarter, due to a shift in mix from lower margin apparel to higher margin apparel, combined with improved inventory management.

(3) Improved gross margins in our Other businesses driven primarily by NIKE Bauer Hockey and Converse, partially offset by the expected effects of the transition in Exeter's business model from licensing to wholesale.

Selling and Administrative Expense

	Three Months Ended November 30,			Six Months Ended November 30,		
	2006	2005	% change	2006	2005	% change
	(dollars in millions)					
Operating overhead expense, excluding stock-based compensation expense1	$ 716.6	$ 677.7	6%	$1,443.0	$1,360.5	6%
Stock-based compensation expense2	27.6	--	-	88.9	--	-
Operating overhead expense, as reported	744.2	677.7	10%	1,531.9	1,360.5	13%
Demand creation expense3	479.5	377.0	27%	981.5	798.6	23%
Selling and administrative expense	$1,223.7	$1,054.7	16%	$2,513.4	$2,159.1	16%

% of revenues	32.0%	30.4%	160 bps	31.4%	29.4%	200bps

1 This schedule is intended to satisfy the quantitative reconciliation for non-GAAP financial measures in accordance with Regulation G of the Securities and Exchange Commission. In addition, this schedule is provided to enhance the visibility of the underlying business trends excluding this identifiable expense by presenting our results for the second quarter and first six months of fiscal 2007 using the same accounting policy for stock-based compensation expense applied during the comparable prior year periods.

2 This charge relates to stock-based compensation associated with stock options and ESPP shares issued to employees and expensed in accordance with FAS 123R. We adopted FAS 123R on June 1, 2006 using the modified prospective transition method. While this expense was not reflected in our results of operations for the second quarter and first six months of fiscal 2006, it will continue to be reflected in future accounting periods.

3 Demand creation consists of advertising and promotion expenses, including costs of endorsement contracts.

Changes in foreign currency exchange rates increased selling and administrative expense by 1 percentage point for the second quarter and year-to-date period versus the same periods in the prior year. During the second quarter and first six months of fiscal 2007, excluding stock-based compensation, the increase in selling and administrative expenses, comprised of demand creation (advertising and promotion) and operating overhead, was primarily attributable to the timing of major advertising campaigns during fiscal 2007 versus fiscal 2006.

In the second quarter and year-to-date period, demand creation expense increased 27% and 23%, respectively, versus the same periods in the prior year. The growth in demand creation was driven by increased spending on advertising and sports marketing events related to the NIKE Pro, LeBron, American Football and NIKE+ campaigns during the second quarter, and increased spending around the global World Cup and NIKE Air (registered) campaigns over the six-month period. Additionally, the timing of demand creation spending in fiscal 2006, with a higher percentage of our spending occurring in the latter half of the year around the World Cup, also contributed to the increases versus the comparable prior year periods. For all of fiscal 2007, growth in demand creation expense is expected to be more in line with our revenue growth.

Excluding stock-based compensation expense, operating overhead increased 6% for both the second quarter and first six months of fiscal 2007, a lower rate of growth than revenue. The increase in operating overhead was mainly attributable to higher wages and benefits and increased spending to support the growth of NIKE-owned retail, primarily related to the addition of new factory outlet stores.

Other Expense (Income), net

	Three Months Ended November 30,	Six Months Ended November 30,

	2006	2005	% change	2006	2005	% change
			(dollars in millions)			
Other expense (income), net	$ 0.2	($ 1.4)	-114%	($ 3.0)	($ 11.3)	-73%

Other expense (income), net is comprised substantially of gains and losses associated with the conversion of non-functional currency receivables and payables, the re-measurement of derivative instruments, disposals of fixed assets, as well as other unusual or non-recurring transactions that are outside the normal course of business. Such items did not have a significant effect on Other expense (income), net for the second quarter of fiscal 2007.

As disclosed in the first quarter, the decrease in Other expense (income), net for the first six months of fiscal 2007 compared to the prior year was primarily the result of foreign currency hedge losses in fiscal 2007, compared to foreign currency hedge gains in fiscal 2006. The foreign currency hedge losses recognized in the first six months of fiscal 2007 were more than offset by the $14.2 million benefit from the final settlement of the Converse arbitration during the first quarter. For our segment reporting, foreign currency hedge gains and losses are reflected in the Corporate line of pre-tax income and the Converse arbitration settlement is reflected in the Other line in our segment presentation of pre-tax income in the Notes to Unaudited Condensed Consolidated Financial Statements (Note 9 - Operating Segments).

Income Taxes

	Three Months Ended November 30,			Six Months Ended November 30,		
%	%					
	2006	2005	change	2006	2005	change
Effective tax rate	27.2%	35.1%	-790 bps	31.3%	34.7%	-340 bps

The effective tax rate for the second quarter was 27.2%, an improvement of nearly 8 percentage points versus the comparable period in the prior year. During the second quarter, we finalized a tax agreement with the Dutch government that is effective for fiscal years 2006 through 2015. This agreement resulted in a retroactive tax benefit related to fiscal 2006 and the first quarter of fiscal 2007, which we recognized in our second quarter results. For the balance of fiscal 2007, we expect an effective tax rate of approximately 33.5%, bringing our estimated full year rate to 32.5%.

Futures Orders

Worldwide futures and advance orders for our footwear and apparel, scheduled for delivery from December 2006 through April 2007, were 7% higher than such orders reported for the comparable period of fiscal 2006. This futures growth rate is calculated based upon our forecasts of the actual exchange rates under which our revenues will be translated during this period, which approximate current spot rates. The net effect from changes in foreign currency exchange rates contributed 2 percentage points to futures growth versus the same period in the prior year. Excluding this currency impact, unit sales volume increases for both footwear and apparel drove the growth in overall futures and advance orders. The reported futures and advance orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations and discounts can cause differences in the comparisons between futures and advance orders, and actual revenues. Moreover, a significant portion of our revenue is not derived from futures and advance orders, including at-once and closeout sales of NIKE footwear and apparel, wholesale sales of equipment, U.S. licensed team apparel, Cole Haan, Converse, Exeter Brands Group, Hurley, NIKE Bauer Hockey, NIKE Golf and retail sales across all brands.

Operating Segments

The breakdown of revenues follows:

	Three Months Ended November 30,			Six Months Ended November 30,		
	2006	2005	% change	2006	2005	% change
	(dollars in millions)					
U.S. REGION						
FOOTWEAR	$ 879.4	$ 811.5	8%	$1,958.5	$1,832.6	7%
APPAREL	475.4	433.8	10%	906.9	829.3	9%
EQUIPMENT	63.2	61.8	2%	154.5	154.1	0%
TOTAL U.S.	1,418.0	1,307.1	8%	3,019.9	2,816.0	7%
EMEA REGION						
FOOTWEAR	541.4	533.2	2%	1,220.9	1,218.3	0%
APPAREL	421.0	379.6	11%	908.0	814.8	11%
EQUIPMENT	73.8	64.6	14%	178.2	161.8	10%
TOTAL EMEA	1,036.2	977.4	6%	2,307.1	2,194.9	5%
ASIA PACIFIC REGION						
FOOTWEAR	277.4	245.4	13%	543.4	482.8	13%
APPAREL	250.6	214.6	17%	451.5	391.1	15%
EQUIPMENT	50.2	43.3	16%	101.7	89.0	14%
TOTAL ASIA PACIFIC	578.2	503.3	15%	1,096.6	962.9	14%
AMERICAS REGION						

FOOTWEAR	185.1	178.1	4%	357.4	335.0	7%
APPAREL	55.7	55.4	1%	106.9	96.1	11%
EQUIPMENT	21.7	18.6	17%	40.7	34.7	17%
TOTAL AMERICAS	262.5	252.1	4%	505.0	465.8	8%
	3,294.9	3,039.9	8%	6,928.6	6,439.6	8%
OTHER	526.8	434.8	21%	1,087.2	897.1	21%
TOTAL REVENUES	$3,821.7	$3,474.7	10%	$8,015.8	$7,336.7	9%

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

	Three Months Ended November 30,			Six Months Ended November 30,		
	2006	2005	% change	2006	2005	% change
	(dollars in millions)					
U.S. Region	$ 266.0	$ 265.7	0%	$ 604.9	$ 610.9	-1%
EMEA Region	158.8	194.2	-18%	461.3	524.4	-12%
Asia Pacific Region	139.9	115.2	21%	238.8	206.6	16%
Americas Region	59.8	57.4	4%	108.2	102.0	6%
Other	54.3	23.0	136%	142.2	63.0	126%
Corporate	(231.5)	(191.7)	-21%	(532.3)	(383.1)	-39%
Total pre-tax income	$ 447.3	$ 463.8	-4%	$1,023.1	$1,123.8	-9%

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

U.S. Region

	Three Months Ended November 30,	Six Months Ended November 30,

	2006	2005	% change	2006	2005	% change
			(dollars in millions)			
Revenues						
Footwear	$ 879.4	$ 811.5	8%	$1,958.5	$1,832.6	7%
Apparel	475.4	433.8	10%	906.9	829.3	9%
Equipment	63.2	61.8	2%	154.5	154.1	0%
Total revenues	$1,418.0	$1,307.1	8%	$3,019.9	$2,816.0	7%
Pre-tax income	$ 266.0	$ 265.7	0%	$ 604.9	$ 610.9	-1%

For the second quarter and first six months of fiscal 2007, the growth in U.S. footwear revenue was the result of increases in both unit sales and average selling price per pair. For both the quarter and year-to-date period, unit sales growth and increases in average selling price per pair were driven by higher demand for our NIKE brand sport culture, men's sports performance, most notably running, and Brand Jordan products.

The growth in U.S. apparel revenues for the second quarter and first six months of fiscal 2007 was attributable to higher unit sales, primarily NIKE brand sport performance apparel, as well as an improvement in average selling prices, driven by team and licensed apparel and Brand Jordan products.

Second quarter pre-tax income for the U.S. region was consistent with the comparable period in the prior year, and down slightly for the year-to-date period, as higher selling and administrative expenses and lower gross margins (resulting from additional logistics costs incurred to meet strong footwear unit demand, higher footwear product costs and lower retail margins) neutralized the growth in revenues. Selling and administrative expenses increased for the quarter and first six months of the fiscal year as a result of higher demand creation spending around the Lebron, American Football and Nike+ campaigns, most notably during the second quarter, combined with increased spend around the World Cup and Nike Air (registered) campaigns in the first quarter. The growth in demand creation spend versus the comparable prior year periods is also a function of the difference in timing of major advertising campaigns during fiscal 2007 versus fiscal 2006.

EMEA Region

	Three Months Ended November 30,			Six Months Ended November 30,		
	2006	2005	% change	2006	2005	% change
			(dollars in millions)			
Revenues						

Footwear	$ 541.4	$ 533.2	2%	$1,220.9	$1,218.3	0%
Apparel	421.0	379.6	11%	908.0	814.8	11%
Equipment	73.8	64.6	14%	178.2	161.8	10%
Total revenues	$1,036.2	$ 977.4	6%	$2,307.1	$2,194.9	5%
Pre-tax income	$ 158.8	$ 194.2	-18%	$ 461.3	$ 524.4	-12%

For the EMEA region, which includes Europe, Middle East and Africa, 3 percentage points of the revenue growth for both the second quarter and the first six months of fiscal 2007 was due to changes in currency exchange rates. Excluding changes in currency exchange rates, all markets within the region, with the exception of the U.K. and France, increased revenues during the quarter and year-to-date period. The emerging markets in the region grew approximately 30% for the quarter and year-to-date period driven by strong results in Russia, South Africa and Turkey. Increases in Italy and Spain also contributed significantly to the revenue growth in both the second quarter and year-to-date period. While the majority of markets in the region continued to experience growth, the challenging retail environment in the U.K. and France partially offset this growth.

Excluding changes in exchange rates, footwear revenues decreased during the second quarter and year-to-date periods of fiscal 2007 compared to the same periods in the prior year, as a result of decreased unit sales, partially offset by a slight increase in the average selling price per pair. The unit sales decrease was due primarily to lower sales to certain retailers and a challenging retail environment in the U.K. and France, offset by increased demand for sport culture products across the rest of the region. The increase in the average selling price per pair was due in part to changes in the mix of in-line products sold towards products with a higher average selling price.

The increase in EMEA apparel revenue during the second quarter and first six months of 2007 was driven by increased unit sales and an increase in average selling prices of NIKE brand apparel, primarily sport performance products, including Nike Pro.

The decline in EMEA pre-tax income for the second quarter and first six months of fiscal 2007 reflected a lower gross margin percentage and higher selling and administrative expenses, primarily demand creation, which more than offset the increase in revenues and favorable foreign currency translation compared to prior year periods. The lower gross margin percentage for the quarter and year-to-date period was attributable to lower in-line net pricing margins in footwear combined with an increase in warehousing costs. The lower in-line net pricing margins in footwear were attributable to higher product costs, which were primarily the result of increased labor costs and higher sales incentives.

Excluding changes in foreign currency exchange rates, selling and administrative expenses for the second quarter and first six months of 2007 were higher than the corresponding periods in the prior year, driven primarily by higher demand creation spending around the Nike Pro and Nike+ campaigns, most notably during the second quarter, combined with increased spend around the World Cup and Nike Air (registered) campaigns over the six-month period. Operating overhead expense increased in both the second quarter and first six months of fiscal 2007 due primarily to expected annual increases in wages and benefits.

Asia Pacific Region

	Three Months Ended November 30,			Six Months Ended November 30,		
	2006	2005	% change	2006	2005	% change
			(dollars in millions)			
Revenues						
Footwear	$ 277.4	$ 245.4	13%	$ 543.4	$ 482.8	13%
Apparel	250.6	214.6	17%	451.5	391.1	15%
Equipment	50.2	43.3	16%	101.7	89.0	14%
Total revenues	$ 578.2	$ 503.3	15%	$ 1,096.6	$ 962.9	14%
Pre-tax income	$ 139.9	$ 115.2	21%	$ 238.8	$ 206.6	16%

In the Asia Pacific region, changes in currency exchange rates did not have a significant effect on year-over-year revenue growth for the second quarter or the first six months of fiscal 2007. While the majority of countries within the region reported double-digit sales increases for both the quarter and year-to-date period, China and Korea were the primary drivers of revenue growth, as revenues for each country grew more than 30% and 20%, respectively, for both the quarter and year-to-date period. While revenue growth in the Asia Pacific region was strong, revenue growth in Japan was up just over 1% for the quarter and approximately 2% year-to-date, due to weak market conditions.

Footwear revenue growth for both the quarter and first six months of fiscal 2007 reflected increased unit sales, most notably in China and Korea, partially offset by lower average selling prices, which primarily resulted from strategies to improve consumer value in Japan. The increase in apparel revenue for both the quarter and year-to-date period was also primarily driven by increased demand in China and Korea.

The increase in pre-tax income in the second quarter and first six months of fiscal 2007 was driven by higher revenues, improved gross margins and favorable foreign currency translation, which more than offset higher selling and administrative expenses. The increase in selling and administrative expenses during the second quarter was primarily attributable to demand creation investments in the LeBron campaign, the Just Do It campaign in China, the launch of Nike+ in Japan, and sports marketing across the region, as well as increased spend around the World Cup during the first quarter. Overall business growth across the region, combined with retail expansion in China also contributed to an increase in operating overhead expenses. The gross margin improvement for the quarter and first six months of the fiscal year was primarily driven by improved year-over-year hedge rates, better inventory management and reduced warehousing costs. The year-to-date improvement in margins was partially offset by higher sales incentives combined with efforts to improve consumer value, most notably in Japan.

Americas Region

	Three Months Ended November 30,			Six Months Ended November 30,		
	2006	2005	% change	2006	2005	% change
	(dollars in millions)					
Revenues						
Footwear	$ 185.1	$ 178.1	4%	$ 357.4	$ 335.0	7%
Apparel	55.7	55.4	1%	106.9	96.1	11%
Equipment	21.7	18.6	17%	40.7	34.7	17%
Total revenues	$ 262.5	$ 252.1	4%	$ 505.0	$ 465.8	8%
Pre-tax income	$ 59.8	$ 57.4	4%	$ 108.2	$ 102.0	6%

In the Americas region, changes in currency exchange rates contributed 1 and 2 percentage points of revenue growth for the second quarter and first six months of fiscal 2007, respectively. Excluding the changes in foreign currency exchange rates, sales increases in Argentina, Mexico and Chile contributed to the revenue growth in both the second quarter and year-to-date period. Growth in these markets was partially offset by sales declines in Brazil and Canada for both the second quarter and year-to-date period.

The increase in pre-tax income for both the second quarter and first six months was attributable to higher revenues and improved gross margins, combined with favorable foreign currency translation. These factors were partially offset by higher selling and administrative expenses for both the quarter and year-to-date period. The increase in selling and administrative expenses was primarily the result of higher demand creation spending around the Run Americas II campaign during the second quarter and the global World Cup in the year-to-date period. Operating overhead expense also increased for the quarter and first six months of fiscal 2007, driven by increases in wages and benefit costs.

Other Businesses

Three Months Ended November 30,			Six Months Ended November 30,		
2006	2005	% change	2006	2005	% change

	(dollars in millions)					
Revenues	$ 526.8	$ 434.8	21%	$1,087.2	$ 897.1	21%
Pre-tax income	54.3	23.0	136%	142.2	63.0	126%

The increase in Other business revenues for the second quarter and first six months of fiscal 2007 was driven by higher revenues across all businesses, most notably Converse and NIKE Bauer Hockey.

During the second quarter and year-to-date period, improved profitability at Converse, driven by increased revenues in the U.S. and internationally, and growth at NIKE Bauer Hockey contributed to the increase in pre-tax income versus the same periods in the prior year. As previously discussed, the year-to-date results include the benefit from the favorable settlement of the arbitration ruling involving Converse and a former South American licensee.

Liquidity and Capital Resources

Cash Flow Activity

Cash provided by operations was $541.6 million for the first six months of fiscal 2007, compared to $738.2 million for the first six months of fiscal 2006. Our primary source of operating cash flow for the first six months of 2007 was net income of $702.8 million offset by an increased investment in working capital to support growth in the business. The increased investment in working capital over the first six months of fiscal 2007 was largely due to an increase in taxes receivable resulting from the Dutch Tax agreement and an increase in tax prepayments versus the same period in the prior year.

Cash provided by investing activities was $389.9 million for the first six months of fiscal 2007, compared to cash used in investing activities of $652.1 million for the first six months of fiscal 2006. The increase over fiscal 2006 was primarily due to higher net maturities of short-term investments (maturities net of purchases) as we liquidated short-term investments for share repurchases.

Cash used in financing activities was $803.7 million for the first six months of fiscal 2007, compared to $352.2 million used in the first six months of fiscal 2006. The increase over fiscal 2006 was primarily due to the $250 million repayment of corporate bonds, combined with an increase in share repurchases, as discussed below.

In the current quarter, we purchased 1.5 million shares of NIKE's Class B common stock for $126.0 million, bringing total purchases for the first six months of fiscal 2007 to 7.5 million shares at a cost of $602.7 million. In the first quarter of fiscal 2007, we repurchased 6 million shares, of which 2 million shares completed the previous four-year, $1.5 billion share repurchase program approved by the Board of Directors in June 2004. As of the end the second quarter of fiscal 2007, we have now repurchased 5.5 million shares for $440.1 million under the new $3 billion program approved by our Board of Directors in June 2006. We expect to fund share repurchases from operating cash flow, excess cash, and/or debt. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

During the second quarter of fiscal 2007, we increased our dividend per common share 19% to $0.37, as compared to $0.31 in the second quarter of fiscal 2006.

Contractual Obligations

As a result of renewals of and additions to outstanding endorsement contracts, the cash payments due under our endorsement contracts have changed from what was previously reported in our Annual Report on Form 10-K as of May 31, 2006.

Endorsement contract obligations as of November 30, 2006 are as follows:

	Cash Payments Due During the Fiscal Year Ending May 31,						
Description of Commitment	Remaining 2007	2008	2009	2010	2011	Thereafter	Total
				(in millions)			
Endorsement Contracts	$ 270.5	422.6	376.4	295.0	235.9	651.9	$2,252.3

The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete and sport team endorsers of our products. Actual payments under some contracts may be higher than the amounts listed as these contracts provide for bonuses to be paid to the endorsers based upon athletic achievements and/or royalties on product sales in future periods. Actual payments under some contracts may also be lower as these contracts include provisions for reduced payments if athletic performance declines in future periods.

In addition to the cash payments, we are obligated to furnish the endorsers with NIKE products for their use. It is not possible to determine how much we will spend on this product on an annual basis, as the contracts do not stipulate a specific amount of cash to be spent on the product, and as a result, such amounts are not included in the table above. The amount of product provided to the endorsers will depend on many factors including general playing conditions, the number of sporting events in which they participate, and our own decisions regarding product and marketing initiatives. In addition, the costs to design, develop, source, and purchase the products furnished to the endorsers are incurred over a period of time and are not necessarily tracked separately from similar costs incurred for products sold to customers.

Capital Resources

On December 1, 2006, the Company entered into a new $1 billion multi-year credit facility that replaces the Company's previous $750 million facility. The new revolving credit facility has similar terms as the previous facility and matures in December 2011, with a one year extension option prior to each of the first anniversary and second anniversary of the closing date, for a total extension of two years. No amounts were outstanding under these facilities at May 31, 2006 or November 30, 2006.

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

Liquidity is also provided by our commercial paper program, under which there was no amount outstanding at November 30, 2006 or May 31, 2006. We currently have short-term debt ratings of A1 and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

We currently believe that cash generated by operations, together with access to external sources of funds as described above and in our Annual Report on Form 10-K for the fiscal year ended May 31, 2006, will be sufficient to meet our operating and capital needs in the foreseeable future.

Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in our financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". The provisions of FIN 48 are effective for our fiscal year beginning June 1, 2007. We are currently evaluating the impact of the provisions of FIN 48.

In June 2006, the FASB ratified the consensus reached in Emerging Issues Task Force ("EITF") Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43." ("EITF 06-2").EITF 06-2 clarifies recognition guidance on the accrual of employees' rights to compensated absences under a sabbatical or other similar benefit arrangement. The provisions of EITF 06-2 are effective for the fiscal year beginning June 1, 2007 and will be applied through a cumulative effect adjustment to retained earnings. We have evaluated the provisions of EITF 06-2 and do not expect that the adoption will have a material impact on the Company's consolidated financial position or results of operations.

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

In September 2006, the FASB issued SFAS No. 158. "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158"). FAS 158 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The provisions of FAS 158 are effective as of the end of the fiscal year ending May 31, 2007. We have evaluated the provisions of FAS 158 and do not expect that the adoption will have a material impact on the Company's consolidated financial position or results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires public companies to quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement as material, when all relevant quantitative and qualitative factors are considered. The guidance in SAB 108 is effective for the fiscal year ending May 31, 2007. We are currently evaluating the impact of SAB 108.

Critical Accounting Policies

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

We believe that the estimates, assumptions and judgments involved in the accounting policies described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our most recent Annual Report on Form 10-K have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. With the adoption of FAS 123R at the beginning of the first quarter of fiscal 2007, we have added "Stock-based Compensation" as a critical accounting policy as described below. Actual results could differ from the estimates we use in applying the critical accounting policies. Certain of these critical accounting policies affect working capital account balances, including the policies for revenue recognition, the reserve for uncollectible accounts receivable, inventory reserves, and contingent payments under endorsement contracts. These policies require that we make estimates in the preparation of our financial statements as of a given date. However, since our business cycle is relatively short, actual results related to these estimates are generally known within the six-month period following the financial statement date. Thus, these policies generally affect only the timing of reported amounts across two to three quarters.

Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Stock-based Compensation

As of the first quarter of fiscal 2007, we account for stock-based compensation in accordance with FAS 123R. Under the provisions of FAS 123R, the fair value of stock-based compensation is estimated on the date of grant using the Black-Scholes fair value model. The Black-Scholes option pricing model requires the input of highly subjective assumptions including volatility. Expected volatility is estimated based on implied volatility in market traded options on the Company's common stock, with a term greater than one year. Our decision to use implied volatility was based on the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. If factors change and we use different assumptions for estimating stock-based compensation expense in future periods, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information previously reported under Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2006.

Item 4. CONTROLS AND PROCEDURES

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

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of November 30, 2006.

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

Special Note Regarding Forward-Looking Statements and Analyst Reports

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

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

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

Part II - Other Information

Item 1. Legal Proceedings

There have been no significant developments with respect to the information previously reported under Item 4 of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2006.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended May 31, 2006.

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

The following table presents a summary of share repurchases made by NIKE during the quarter ended November 30, 2006. In June 2006, our Board of Directors approved a new four-year $3.0 billion share repurchase program. During the first quarter ended August 31, 2006, we completed the previous $1.5 billion share repurchase program authorized by the Board of Directors in June 2004.

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(in millions)
September 1 - 30, 2006	927,400	$ 82.31	927,400	$2,609.6
October 1 - 31, 2006	447,000	$ 89.01	447,000	$2,569.8
November 1 - 30, 2006	104,400	$ 95.05	104,400	$2,559.8
Total	1,478,800	$ 85.23	1,478,800	

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

The Company's annual meeting of shareholders was held on September 18, 2006. The voting results are as follows:

Proposal 1 - Election of Directors:

	For	Votes Cast Withheld	Broker Non-Votes
Directors Elected by holders of Class A Common Stock:			
John G. Connors	63,088,671	-0-	-0-
Timothy D. Cook	63,088,671	-0-	-0-
Ralph D. DeNunzio	63,088,671	-0-	-0-
Douglas G. Houser	63,088,671	-0-	-0-
Philip H. Knight	63,088,671	-0-	-0-
Mark G. Parker	63,088,671	-0-	-0-
Orin C. Smith	63,088,671	-0-	-0-
John R. Thompson, Jr.	63,088,671	-0-	-0-
Directors Elected by holders of Class B Common Stock:			
Jill K. Conway	160,199,653	3,858,591	-0-
Alan B. Graf, Jr.	161,964,518	2,093,726	-0-
Jeanne P. Jackson	160,988,462	3,069,782	-0-

Proposal 2 - Shareholder Proposal Regarding a Charitable Contributions Report:

A shareholder proposal regarding a charitable contributions report was not submitted to a vote of the shareholders.

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

Class A and Class B Common Stock Voting Together:

For	Against	Abstain	Broker Non-Votes

222,772,427	3,143,671	1,230,816	-0-

Item 6. Exhibits

(a) EXHIBITS:

3.1 Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2005).

3.2 Third Restated Bylaws, as amended (incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K filed November 18, 2004).

4.1 Restated Articles of Incorporation, as amended (see Exhibit 3.1).

4.2 Third Restated Bylaws, as amended (see Exhibit 3.2).

10.1 Employment Agreement, dated September 17, 2006, between NIKE, Inc. and Adam Helfant (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 21, 2006)*

12.1 Computation of Ratio of Earnings to Fixed Charges.

31.1 Rule 13(a)-14(a) Certification of Chief Executive Officer.

31.2 Rule 13(a)-14(a) Certification of Chief Financial Officer.

32.1 Section 1350 Certificate of Chief Executive Officer.

32.2 Section 1350 Certificate of Chief Financial Officer.

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* Management Contract or Compensatory Plan or Agreement

SIGNATURES

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

NIKE, Inc.
an Oregon Corporation

/s/Donald W. Blair

Donald W. Blair
Chief Financial Officer

DATED: January 4, 2007