

NIKE INC
Form 10-Q
April 04, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended February 28, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-10635

NIKE, Inc.

(Exact name of registrant as specified in its charter)

OREGON	93-0584541
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Bowerman Drive, Beaverton, Oregon	97005-6453
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(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Smaller reporting company
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Non-accelerated filer	(Do not check if a smaller reporting company)	Emerging growth company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Shares of Common Stock outstanding as of April 1, 2019 were:

Class A 315,024,752

Class B 1,256,724,839

1,571,749,591

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

NIKE, Inc. Unaudited Condensed Consolidated Balance Sheets

(In millions)	February 28, 2019	May 31, 2018
ASSETS		
Current assets:		
Cash and equivalents	\$ 3,695	\$4,249
Short-term investments	351	996
Accounts receivable, net	4,549	3,498
Inventories	5,415	5,261
Prepaid expenses and other current assets	1,786	1,130
Total current assets	15,796	15,134
Property, plant and equipment, net	4,688	4,454
Identifiable intangible assets, net	283	285
Goodwill	154	154
Deferred income taxes and other assets	2,000	2,509
TOTAL ASSETS	\$ 22,921	\$22,536
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 6	\$6
Notes payable	16	336
Accounts payable	2,307	2,279
Accrued liabilities	4,738	3,269
Income taxes payable	214	150
Total current liabilities	7,281	6,040
Long-term debt	3,465	3,468
Deferred income taxes and other liabilities	3,214	3,216
Commitments and contingencies (Note 13)		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 315 and 329 shares outstanding	—	—
Class B — 1,258 and 1,272 shares outstanding	3	3
Capital in excess of stated value	6,910	6,384
Accumulated other comprehensive income (loss)	197	(92)
Retained earnings	1,851	3,517
Total shareholders' equity	8,961	9,812
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 22,921	\$22,536

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

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NIKE, Inc. Unaudited Condensed Consolidated Statements of Income

	Three Months		Nine Months	
	Ended February		Ended February	
(In millions, except per share data)	2019	2018	2019	2018
Revenues	\$9,611	\$8,984	\$28,933	\$26,608
Cost of sales	5,272	5,046	16,092	15,030
Gross profit	4,339	3,938	12,841	11,578
Demand creation expense	865	862	2,739	2,594
Operating overhead expense	2,226	1,905	6,557	5,797
Total selling and administrative expense	3,091	2,767	9,296	8,391
Interest expense (income), net	12	13	37	42
Other (income) expense, net	(55)	(1)	(50)	35
Income before income taxes	1,291	1,159	3,558	3,110
Income tax expense	190	2,080	518	2,314
NET INCOME (LOSS)	\$1,101	\$(921)	\$3,040	\$796
Earnings (loss) per common share:				
Basic	\$0.70	\$(0.57)	\$1.92	\$0.49
Diluted	\$0.68	\$(0.57)	\$1.87	\$0.48

Weighted average common shares outstanding:

Basic	1,572.8	1,623.5	1,582.8	1,629.9
Diluted	1,609.6	1,623.5	1,621.5	1,665.7

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

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NIKE, Inc.
 Unaudited
 Condensed
 Consolidated
 Statements of
 Comprehensive
 Income

	Three Months		Nine Months	
	Ended February		Ended	
	28,		February 28,	
(In millions)	2019	2018	2019	2018
Net income (loss)	\$1,101	\$(921)	\$3,040	\$796
Other comprehensive income (loss), net of tax:				
Change in net foreign currency translation adjustment	79	51	(51)) 65
Change in net gains (losses) on cash flow hedges	(91)) (107)) 343	(494)
Change in net gains (losses) on other	—	2	(3)) 1
Total other comprehensive income (loss), net of tax	(12)) (54)) 289	(428)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$1,089	\$(975)	\$3,329	\$368

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

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NIKE, Inc. Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended February 28,	
(In millions)	2019	2018
Cash provided by operations:		
Net income	\$3,040	\$796
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	527	551
Deferred income taxes	67	564
Stock-based compensation	226	158
Amortization and other	9	23
Net foreign currency adjustments	218	(130)
Changes in certain working capital components and other assets and liabilities:		
(Increase) decrease in accounts receivable	(460)	3
(Increase) decrease in inventories	(226)	(245)
(Increase) decrease in prepaid expenses and other current and non-current assets	(167)	(474)
Increase (decrease) in accounts payable, accrued liabilities and other current and non-current liabilities	659	1,439
Cash provided by operations	3,893	2,685
Cash (used) provided by investing activities:		
Purchases of short-term investments	(2,384)	(3,644)
Maturities of short-term investments	1,613	3,101
Sales of short-term investments	1,491	1,797
Additions to property, plant and equipment	(846)	(728)
Disposals of property, plant and equipment	5	—
Cash (used) provided by investing activities	(121)	526
Cash used by financing activities:		
Long-term debt payments, including current portion	(5)	(4)
Increase (decrease) in notes payable	(320)	(314)
Payments on capital lease and other financing obligations	(21)	(16)
Proceeds from exercise of stock options and other stock issuances	487	554
Repurchases of common stock	(3,405)	(2,694)
Dividends — common and preferred	(986)	(920)
Tax payments for net share settlement of equity awards	(17)	(54)
Cash used by financing activities	(4,267)	(3,448)
Effect of exchange rate changes on cash and equivalents	(59)	91
Net increase (decrease) in cash and equivalents	(554)	(146)
Cash and equivalents, beginning of period	4,249	3,808
CASH AND EQUIVALENTS, END OF PERIOD	\$3,695	\$3,662
Supplemental disclosure of cash flow information:		
Non-cash additions to property, plant and equipment	\$171	\$190
Dividends declared and not paid	347	324

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

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NIKE, Inc. Unaudited Condensed Consolidated Statements of Shareholders' Equity

(In millions, except per share data)	Common Stock		Capital in Excess of Stated Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total		
	Class A	Class B						
	Shares	Amount	Shares	Amount				
Balance at November 30, 2018	315	\$ —	1,262	\$ 3	\$ 6,707	\$ 209	\$ 1,810	\$ 8,729
Stock options exercised			6		159			159
Repurchase of Class B Common Stock			(10)		(44)		(710)	(754)
Dividends on common stock (\$0.22 per share)							(347)	(347)
Issuance of shares to employees, net of shares withheld for employee taxes					(5)		(3)	(8)
Stock-based compensation					93			93
Net income							1,101	1,101
Other comprehensive income (loss)							(12)	(12)
Balance at February 28, 2019	315	\$ —	1,258	\$ 3	\$ 6,910	\$ 197	\$ 1,851	\$ 8,961
(In millions, except per share data)	Common Stock		Capital in Excess of Stated Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total		
	Class A	Class B						
	Shares	Amount	Shares	Amount				
Balance at November 30, 2017	329	\$ —	1,295	\$ 3	\$ 6,005	\$ (587)	\$ 6,337	\$ 11,758
Stock options exercised			9		231			231
Repurchase of Class B Common Stock			(15)		(56)		(906)	(962)
Dividends on common stock (\$0.20 per share)							(324)	(324)
Issuance of shares to employees, net of shares withheld for employee taxes			1				(1)	(1)
Stock-based compensation					55			55
Net income (loss)							(921)	(921)
Other comprehensive income (loss)							(54)	(54)
Reclassifications to retained earnings in accordance with ASU 2018-02							17	(17)
Balance at February 28, 2018	329	\$ —	1,290	\$ 3	\$ 6,235	\$ (624)	\$ 4,168	\$ 9,782

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NIKE, Inc. Unaudited Condensed Consolidated Statements of Shareholders' Equity

(In millions, except per share data)	Common Stock		Capital in Excess of Stated Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total	
	Class A	Class B					
	Shares	Amount	Shares	Amount			
Balance at May 31, 2018	329	\$ —	1,272	\$ 3	\$ 6,384	\$ (92) \$ 3,517 \$ 9,812	
Stock options exercised			14		419		419
Conversion to Class B Common Stock	(14)		14				—
Repurchase of Class B Common Stock			(44)		(181)		(3,205) (3,386)
Dividends on common stock (\$0.64 per share) and preferred stock (\$0.10 per share)							(1,013) (1,013)
Issuance of shares to employees, net of shares withheld for employee taxes			2		62		(4) 58
Stock-based compensation					226		226
Net income							3,040 3,040
Other comprehensive income (loss)							289 289
Adoption of ASU 2016-16 (Note 1)							(507) (507)
Adoption of ASC Topic 606 (Note 1)							23 23
Balance at February 28, 2019	315	\$ —	1,258	\$ 3	\$ 6,910	\$ 197	\$ 1,851 \$ 8,961

(In millions, except per share data)	Common Stock		Capital in Excess of Stated Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total	
	Class A	Class B					
	Shares	Amount	Shares	Amount			
Balance at May 31, 2017	329	\$ —	1,314	\$ 3	\$ 5,710	\$ (213)	\$ 6,907 \$ 12,407
Stock options exercised			20		490		490
Repurchase of Class B Common Stock			(47)		(168)		(2,545) (2,713)
Dividends on common stock (\$0.58 per share) and preferred stock (\$0.10 per share)							(944) (944)
Issuance of shares to employees, net of shares withheld for employee taxes			3		45		(29) 16
Stock-based compensation					158		158
Net income							796 796
Other comprehensive income (loss)							(428) (428)
Reclassifications to retained earnings in accordance with ASU 2018-02							17 (17) —
Balance at February 28, 2018	329	\$ —	1,290	\$ 3	\$ 6,235	\$ (624)	\$ 4,168 \$ 9,782

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

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Note 1 — Summary of Significant Accounting Policies

Basis of Presentation

The Unaudited Condensed Consolidated Financial Statements include the accounts of NIKE, Inc. and its subsidiaries (the “Company” or “NIKE”) and reflect all normal adjustments which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end Condensed Consolidated Balance Sheet data as of May 31, 2018 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). The interim financial information and notes thereto should be read in conjunction with the Company’s latest Annual Report on Form 10-K. The results of operations for the three and nine months ended February 28, 2019 are not necessarily indicative of results to be expected for the entire year.

Reclassifications

As previously disclosed in the Annual Report on Form 10-K for the fiscal year ended May 31, 2018, management identified a misstatement related to the historical allocation of repurchases of Class B Common Stock between Capital in excess of stated value and Retained earnings within the Shareholders’ Equity section of the Consolidated Balance Sheets and the Consolidated Statements of Shareholders’ Equity. The misstatement had no impact on the previously reported Consolidated Statements of Income, Comprehensive Income or Cash Flows.

The Company assessed the materiality of these misstatements on prior period financial statements in accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 99, Materiality, codified in Accounting Standards Codification (ASC) 250, Presentation of Financial Statements, and concluded that these misstatements were not material to any prior annual or interim period. As such, the Company has revised the Unaudited Condensed Consolidated Statements of Shareholders’ Equity for the periods ended November 30, 2017 and February 28, 2018, through a reduction to Capital in excess of stated value of \$3.0 billion and an incremental \$0.1 billion, respectively, and an increase to Retained earnings for the same amount in the respective periods.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard using a modified retrospective approach in the first quarter of fiscal 2019 with the cumulative effect of initially applying the standard recognized in Retained earnings at June 1, 2018. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC Topic 605 — Revenue Recognition. The Company has applied the new standard to all contracts at adoption.

The Company’s adoption of Topic 606 resulted in a change to the timing of revenue recognition. The satisfaction of the Company’s performance obligation is based upon transfer of control over a product to a customer, which results in sales being recognized upon shipment rather than upon delivery for certain wholesale transactions and substantially all digital commerce sales. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product. This resulted in a cumulative effect adjustment, which increased Retained earnings by \$23 million at June 1, 2018. The adoption of Topic 606 did not have a material effect on the Unaudited Condensed Consolidated Statements of Income during the three and nine months ended February 28, 2019. Additionally, the Company’s reserve balances for returns, post-invoice sales discounts and miscellaneous claims for wholesale transactions were previously reported net of the estimated cost of inventory for product returns, and as a reduction to Accounts receivable, net on the Unaudited Condensed Consolidated Balance Sheets. Under Topic 606, an asset for the estimated cost of inventory for expected products returns is now recognized separately from the liability for sales-related reserves. This resulted in an increase to Accounts receivable, net, an increase in Prepaid expenses and other current assets and an increase in Accrued liabilities on the Unaudited Condensed Consolidated Balance Sheets at February 28, 2019. Sales-related reserves for the Company’s direct to consumer operations continue to be recognized in Accrued liabilities, but are now recorded separately from an asset for the estimated cost of inventory for expected

product returns, which is recognized in Prepaid expenses and other current assets. The following table presents the related effect of the adoption of Topic 606 on the Unaudited Condensed Consolidated Balance Sheets at February 28, 2019:

(In millions)	As of February 28, 2019		
	As Reported	Effect of Adoption	Balances Without Adoption of Topic 606
Accounts receivable, net	\$4,549	\$ 795	\$ 3,754
Prepaid expenses and other current assets	1,786	426	1,360
Total current assets	15,796	1,221	14,575
TOTAL ASSETS	22,921	1,221	21,700
Accrued liabilities	4,738	1,221	3,517
Total current liabilities	7,281	1,221	6,060
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$22,921	\$ 1,221	\$ 21,700

Other impacts from the adoption of Topic 606 on the Unaudited Condensed Consolidated Financial Statements were immaterial. Refer to Note 11 — Revenues for further discussion.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The updated guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The

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Company adopted the standard on June 1, 2018, using a modified retrospective approach, with the cumulative effect of applying the new standard recognized in Retained earnings at the date of adoption. The adoption resulted in reductions to Retained earnings, Deferred income taxes and other assets and Prepaid expenses and other current assets of \$507 million, \$422 million and \$45 million, respectively, and an increase in Deferred income taxes and other liabilities of \$40 million on the Unaudited Condensed Consolidated Balance Sheets.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company elected to early adopt the ASU in the first quarter of fiscal 2019 and the adoption of the new guidance did not have a material impact on the Unaudited Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The Company adopted the ASU in the first quarter of fiscal 2019 and the adoption of the new guidance did not have a material impact on the Unaudited Condensed Consolidated Financial Statements.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which replaces existing lease accounting guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will require the Company to continue to classify leases as either an operating or finance lease, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU No. 2018-11, which provides entities with an additional transition method to adopt Topic 842. Under the new transition method, an entity initially applies the new standard at the adoption date, versus at the beginning of the earliest period presented, and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company expects to elect this transition method at the adoption date of June 1, 2019.

Upon adoption, the Company plans to elect the practical expedient to not separate lease components from nonlease components for all real estate leases within the portfolio. Additionally, the Company will make an accounting policy election that will keep leases with an initial term of 12 months or less off of the balance sheet and will result in recognizing those lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term. The Company continues to assess and has not yet made a determination on whether to elect the package of transition practical expedients which would allow the Company to carry forward prior conclusions related to: (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for existing leases.

In preparation for implementation, the Company has been executing changes to business processes, including implementing a software solution to assist with the new reporting requirements. The Company continues to assess the effect the guidance will have on its existing accounting policies and the Consolidated Financial Statements, and expects there will be a material increase in assets and liabilities on the Consolidated Balance Sheets at adoption due to the recognition of right-of-use assets and corresponding lease liabilities. Refer to Note 15 — Commitments and Contingencies of the Annual Report on Form 10-K for the fiscal year ended May 31, 2018 for information about the Company's lease obligations.

Note 2 — Inventories

Inventory balances of \$5,415 million and \$5,261 million at February 28, 2019 and May 31, 2018, respectively, were substantially all finished goods.

Note 3 — Accrued Liabilities

Accrued liabilities included the following:

As of	As of
February 28,	May 31,

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(In millions)	2019	2018
Sales-related reserves ⁽¹⁾	\$ 1,244	\$ 20
Compensation and benefits, excluding taxes	1,043	897
Endorsement compensation	394	425
Dividends payable	346	320
Import and logistics costs	295	268
Taxes other than income taxes payable	228	224
Advertising and marketing	161	140
Collateral received from counterparties to hedging instruments	137	23
Fair value of derivatives	87	184
Other ⁽²⁾	803	768
TOTAL ACCRUED LIABILITIES	\$ 4,738	\$ 3,269

Sales-related reserves as of February 28, 2019 reflect the Company's fiscal 2019 adoption of Topic 606. As of May (1)31, 2018, Sales-related reserves reflect the Company's prior accounting under Topic 605. Refer to Note 1 — Summary of Significant Accounting Policies for additional information on the adoption of the new standard.

(2) Other consists of various accrued expenses with no individual item accounting for more than 5% of the total Accrued liabilities balance at February 28, 2019 and May 31, 2018.

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Note 4 — Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivatives, equity securities and available-for-sale debt securities. Fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. The Company uses a three-level hierarchy established by the FASB that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach).

The levels of the fair value hierarchy are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs with little or no market data available, which require the reporting entity to develop its own assumptions.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Financial assets and liabilities are classified in their entirety based on the most conservative level of input that is significant to the fair value measurement.

Pricing vendors are utilized for a majority of Level 1 and Level 2 investments. These vendors either provide a quoted market price in an active market or use observable inputs without applying significant adjustments in their pricing.

Observable inputs include broker quotes, interest rates and yield curves observable at commonly quoted intervals, volatilities and credit risks. The fair value of derivative contracts is determined using observable market inputs such as the daily market foreign currency rates, forward pricing curves, currency volatilities, currency correlations and interest rates, and considers non-performance risk of the Company and its counterparties.

The Company's fair value measurement process includes comparing fair values to another independent pricing vendor to ensure appropriate fair values are recorded.

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of February 28, 2019 and May 31, 2018, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

	As of February 28, 2019		
(In millions)	Assets at Fair Value	Cash and Equivalents	Short-term Investments
Cash	\$540	\$ 540	\$ —
Level 1:			
U.S. Treasury securities	417	100	317
Level 2:			
Commercial paper and bonds	31	1	30
Money market funds	1,379	1,379	—
Time deposits	1,678	1,675	3
U.S. Agency securities	1	—	1
Total Level 2:	3,089	3,055	34
TOTAL	\$4,046	\$ 3,695	\$ 351
	As of May 31, 2018		
(In millions)	Assets at Fair Value	Cash and Equivalents	Short-term Investments
Cash	\$415	\$ 415	\$ —
Level 1:			
U.S. Treasury securities	1,178	500	678
Level 2:			

Commercial paper and bonds	451	153	298
Money market funds	2,174	2,174	—
Time deposits	925	907	18
U.S. Agency securities	102	100	2
Total Level 2:	3,652	3,334	318
TOTAL	\$5,245	\$ 4,249	\$ 996

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The Company elects to record the gross assets and liabilities of its derivative financial instruments on the Unaudited Condensed Consolidated Balance Sheets. The Company's derivative financial instruments are subject to master netting arrangements that allow for the offset of assets and liabilities in the event of default or early termination of the contract. Any amounts of cash collateral received related to these instruments associated with the Company's credit-related contingent features are recorded in Cash and equivalents and Accrued liabilities, the latter of which would further offset against the Company's derivative asset balance. Any amounts of cash collateral posted related to these instruments associated with the Company's credit-related contingent features are recorded in Prepaid expenses and other current assets, which would further offset against the Company's derivative liability balance. Cash collateral received or posted related to the Company's credit-related contingent features is presented in the Cash provided by operations component of the Unaudited Condensed Consolidated Statements of Cash Flows. Any amounts of non-cash collateral received, such as securities, are not recorded on the Unaudited Condensed Consolidated Balance Sheets pursuant to U.S. GAAP. For further information related to credit risk, refer to Note 9 — Risk Management and Derivatives.

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis as of February 28, 2019 and May 31, 2018, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

(In millions)	As of February 28, 2019					
	Derivative Assets			Derivative Liabilities		
	Assets at Fair Value	Other Current Assets	Other Long-term Assets	Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options ⁽¹⁾	\$481	\$ 414	\$ 67	\$83	\$ 83	\$ —
Embedded derivatives	7	1	6	6	4	2
TOTAL	\$488	\$ 415	\$ 73	\$89	\$ 87	\$ 2

If the foreign exchange derivative instruments had been netted on the Unaudited Condensed Consolidated Balance Sheets, the asset and liability positions each would have been reduced by \$82 million as of February 28, 2019. As of that date, the Company had received \$137 million of cash collateral from various counterparties related to foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of February 28, 2019.

(In millions)	As of May 31, 2018					
	Derivative Assets			Derivative Liabilities		
	Assets at Fair Value	Other Current Assets	Other Long-term Assets	Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options ⁽¹⁾	\$389	\$ 237	\$ 152	\$182	\$ 182	\$ —
Embedded derivatives	11	3	8	8	2	6
TOTAL	\$400	\$ 240	\$ 160	\$190	\$ 184	\$ 6

If the foreign exchange derivative instruments had been netted on the Condensed Consolidated Balance Sheets, the asset and liability positions each would have been reduced by \$182 million as of May 31, 2018. As of that date, the Company had received \$23 million of cash collateral from various counterparties related to these foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of May 31, 2018.

The Company's investment portfolio consists of investments in U.S. Treasury and Agency securities, time deposits, money market funds, corporate commercial paper and bonds. These securities are valued using market prices in both active markets (Level 1) and less active markets (Level 2). As of February 28, 2019, the Company held \$313 million

of available-for-sale debt securities with maturity dates within one year and \$38 million with maturity dates over one year and less than five years in Short-term investments on the Unaudited Condensed Consolidated Balance Sheets. The gross realized gains and losses on sales of securities were immaterial for the three and nine months ended February 28, 2019 and 2018. Unrealized gains and losses on available-for-sale debt securities included in Accumulated other comprehensive income (loss) were immaterial as of February 28, 2019 and May 31, 2018. The Company regularly reviews its available-for-sale debt securities for other-than-temporary impairment. For the nine months ended February 28, 2019 and 2018, the Company did not consider any of its securities to be other-than-temporarily impaired and, accordingly, did not recognize any impairment losses.

Included in Interest expense (income), net for the three months ended February 28, 2019 and 2018 was interest income related to the Company's investment portfolio of \$20 million and \$12 million, respectively, and \$60 million and \$36 million for the nine months ended February 28, 2019 and 2018, respectively.

The Company's Level 3 assets comprise investments in certain non-marketable preferred stock. These Level 3 investments are an immaterial portion of the Company's portfolio. Changes in Level 3 investments were immaterial during the nine months ended February 28, 2019 and the fiscal year ended May 31, 2018.

No transfers among levels within the fair value hierarchy occurred during the nine months ended February 28, 2019 and the fiscal year ended May 31, 2018.

For additional information related to the Company's derivative financial instruments, refer to Note 9 — Risk Management and Derivatives. The carrying amounts of other current financial assets and other current financial liabilities approximate fair value.

As of February 28, 2019 and May 31, 2018, assets or liabilities required to be measured at fair value on a non-recurring basis were immaterial.

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Financial Assets and Liabilities Not Recorded at Fair Value

Long-term debt is recorded at adjusted cost, net of unamortized premiums, discounts and debt issuance costs. The fair value of Long-term debt is estimated based upon quoted prices for similar instruments or quoted prices for identical instruments in inactive markets (Level 2). The fair value of the Company's Long-term debt, including the current portion, was approximately \$3,345 million at February 28, 2019 and \$3,294 million at May 31, 2018.

For fair value information regarding Notes payable, refer to Note 5 — Short-Term Borrowings and Credit Lines.

Note 5 — Short-Term Borrowings and Credit Lines

As of February 28, 2019, the Company had no outstanding borrowings under its \$2 billion commercial paper program.

As of May 31, 2018, \$325 million of commercial paper was outstanding at a weighted average interest rate of 1.77%.

These borrowings are included within Notes payable on the Unaudited Condensed Consolidated Balance Sheets.

Due to the short-term nature of the borrowings, the carrying amounts reflected on the Unaudited Condensed Consolidated Balance Sheets for Notes payable approximate fair value.

Note 6 — Income Taxes

The effective tax rate was 14.6% for the nine months ended February 28, 2019 compared to 74.4% for the nine months ended February 28, 2018. The decrease in the Company's effective tax rate was driven by one-time charges in fiscal 2018 related to the enactment of the U.S. Tax Cuts and Jobs Act (the "Tax Act").

As previously disclosed, during the second quarter of fiscal 2019, the Company completed its analysis of the impact of the Tax Act in accordance with the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118 ("SAB 118") and the amounts are no longer considered provisional. This resulted in no change to the provisional amounts recorded in fiscal 2018 related to the one-time transition tax on the deemed repatriation of undistributed foreign earnings and the remeasurement of deferred tax assets and liabilities.

As of February 28, 2019, total gross unrecognized tax benefits, excluding related interest and penalties, were \$798 million, \$537 million of which would affect the Company's effective tax rate if recognized in future periods. As of May 31, 2018, total gross unrecognized tax benefits, excluding related interest and penalties, were \$698 million. The liability for payment of interest and penalties increased \$12 million during the nine months ended February 28, 2019. As of February 28, 2019 and May 31, 2018, accrued interest and penalties related to uncertain tax positions were \$169 million and \$157 million, respectively (excluding federal benefit).

The Company is subject to taxation in the United States, as well as various state and foreign jurisdictions. The Company has closed all U.S. federal income tax matters through fiscal 2016, with the exception of certain transfer pricing adjustments.

The Company's major foreign jurisdictions, China and the Netherlands, have substantially concluded all income tax matters through calendar 2008 and fiscal 2012, respectively. Although the timing of resolution of audits is not certain, the Company evaluates all domestic and foreign audit issues in the aggregate, along with the expiration of applicable statutes of limitations, and estimates that it is reasonably possible the total gross unrecognized tax benefits could decrease by up to approximately \$210 million within the next 12 months. In addition, in January 2019, the European Commission opened a formal investigation to examine whether the Netherlands has breached State Aid rules with respect to the Company. The Company believes the investigation is without merit. If this matter is adversely resolved, the Netherlands may be required to assess additional amounts with respect to current and prior periods, and the Company's Netherlands income taxes in the future could increase.

Note 7 — Common Stock and Stock-Based Compensation

The authorized number of shares of Class A Common Stock, no par value, and Class B Common Stock, no par value, are 400 million and 2,400 million, respectively. Each share of Class A Common Stock is convertible into one share of Class B Common Stock. Voting rights of Class B Common Stock are limited in certain circumstances with respect to the election of directors. There are no differences in the dividend and liquidation preferences or participation rights of the holders of Class A and Class B Common Stock. From time to time, the Company's Board of Directors authorizes share repurchase programs for the repurchase of Class B Common Stock. The value of repurchased shares is deducted from Total shareholders' equity through allocation to Capital in excess of stated value and Retained earnings.

The NIKE, Inc. Stock Incentive Plan (the "Stock Incentive Plan") provides for the issuance of up to 718 million previously unissued shares of Class B Common Stock in connection with equity awards granted under the Stock

Incentive Plan. The Stock Incentive Plan authorizes the grant of non-statutory stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based awards. The exercise price for stock options and stock appreciation rights may not be less than the fair market value of the underlying shares on the date of grant. A committee of the Board of Directors administers the Stock Incentive Plan. The committee has the authority to determine the employees to whom awards will be made, the amount of the awards and other terms and conditions of the awards. The Company generally grants stock options and restricted stock on an annual basis. Substantially all awards outstanding under the Stock Incentive Plan vest ratably over four years, with stock option grants expiring ten years from the date of grant.

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

The Company accounts for stock-based compensation for options granted under the Stock Incentive Plan and employees' purchase rights under the ESPPs by estimating the fair value using the Black-Scholes option pricing model. The Company recognizes this fair value in Cost of sales or Operating overhead expense, as applicable, on a straight-line basis over the vesting period.

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The following table summarizes the Company's total stock-based compensation expense recognized in Cost of sales or Operating overhead expense, as applicable:

	Three Months Ended February 28, 2019		Nine Months Ended February 28, 2018	
(In millions)	2019	2018	2019	2018
Stock options ⁽¹⁾	\$ 62	\$ 38	\$ 145	\$ 110
ESPPs	10	7	28	24
Restricted stock	21	10	53	24
TOTAL STOCK-BASED COMPENSATION EXPENSE	\$ 93	\$ 55	\$ 226	\$ 158

Expense for stock options includes the expense associated with stock appreciation rights. Accelerated stock option expense is recorded for employees eligible for accelerated stock option vesting upon retirement. Accelerated stock option expense was \$13 million and \$6 million for the three months ended February 28, 2019 and 2018, respectively, and \$28 million and \$14 million for the nine months ended February 28, 2019 and 2018, respectively. As of February 28, 2019, the Company had \$414 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in Cost of sales or Operating overhead expense, as applicable, over a weighted average remaining period of 2.3 years.

The weighted average fair value per share of the options granted during the nine months ended February 28, 2019 and 2018, computed as of the grant date using the Black-Scholes pricing model, was \$22.79 and \$9.82, respectively. The weighted average assumptions used to estimate these fair values were as follows:

	Nine Months Ended February 28, 2019		2018	
Dividend yield	1.0 %	1.2 %		
Expected volatility	26.6%	16.4%		
Weighted average expected life (in years)	6.0	6.0		
Risk-free interest rate	2.8 %	2.0 %		

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.

Note 8 — Earnings Per Share

The following is a reconciliation from basic earnings per common share to diluted earnings (loss) per common share. The computations of diluted earnings per common share excluded options, including shares under ESPPs, to purchase an additional 18.7 million and 19.1 million shares of common stock outstanding for the three and nine months ended February 28, 2019, respectively, and 42.9 million shares of common stock outstanding for the nine months ended February 28, 2018, because the options were anti-dilutive. Additionally, as a result of the net loss incurred for the three months ended February 28, 2018, all outstanding options, including shares under ESPPs, to purchase common stock and other awards of common stock were excluded from the computation of diluted earnings (loss) per common share because the inclusion of the shares would have been anti-dilutive.

	Three Months Ended February 28, 2019		Nine Months Ended February 28, 2018	
(In millions, except per share data)	2019	2018	2019	2018
Determination of shares:				

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Weighted average common shares outstanding	1,572.8	1,623.5	1,582.8	1,629.9
Assumed conversion of dilutive stock options and awards	36.8	—	38.7	35.8
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	1,609.6	1,623.5	1,621.5	1,665.7

Earnings (loss) per common share:

Basic	\$0.70	\$(0.57)	\$1.92	\$ 0.49
Diluted	\$0.68	\$(0.57)	\$1.87	\$ 0.48

Note 9 — Risk Management and Derivatives

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

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The Company may elect to designate certain derivatives as hedging instruments under U.S. GAAP. The Company formally documents all relationships between designated hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivatives designated as hedges to either recognized assets, liabilities, or forecasted transactions and assessing, both at inception and on an ongoing basis, the effectiveness of the hedging relationships.

The majority of derivatives outstanding as of February 28, 2019 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, British Pound/Euro, Chinese Yuan/U.S. Dollar and Japanese Yen/U.S. Dollar currency pairs. All derivatives are recognized on the Unaudited Condensed Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date.

The following table presents the fair values of derivative instruments included within the Unaudited Condensed Consolidated Balance Sheets as of February 28, 2019 and May 31, 2018. Refer to Note 4 — Fair Value Measurements for a description of how the financial instruments in the table below are valued.

(In millions)	Derivative Assets		Derivative Liabilities			
	Balance Sheet Location	February 28, 2019	May 31, 2018	Balance Sheet Location	February 28, 2019	May 31, 2018
Derivatives formally designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	\$ 343	\$ 118	Accrued liabilities	\$ 58	\$ 156
Foreign exchange forwards and options	Deferred income taxes and other assets	67	152	Deferred income taxes and other liabilities	—	—
Total derivatives formally designated as hedging instruments		410	270		58	156
Derivatives not designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	71	119	Accrued liabilities	25	26
Embedded derivatives	Prepaid expenses and other current assets	1	3	Accrued liabilities	4	2
Foreign exchange forwards and options	Deferred income taxes and other assets	—	—	Deferred income taxes and other liabilities	—	—
Embedded derivatives	Deferred income taxes and other assets					