



# Nike, Inc. Annual Report 2018

**Form 10-K (NYSE:NKE)**

Published: July 25th, 2018

PDF generated by [stocklight.com](https://stocklight.com)



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED May 31, 2018**

OR

**☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM TO  
Commission File No. 1-10635**



**NIKE, Inc.**

(Exact name of Registrant as specified in its charter)

<b>OREGON</b>	<b>93-0584541</b>
<i>(State or other jurisdiction of incorporation)</i>	<i>(IRS Employer Identification No.)</i>

<b>One Bowerman Drive, Beaverton, Oregon</b>	<b>97005-6453</b>
<i>(Address of principal executive offices)</i>	<i>(Zip Code)</i>

<b>(503) 671-6453</b>
<i>(Registrant's telephone number, including area code)</i>

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:	
<b>Class B Common Stock</b>	<b>New York Stock Exchange</b>
<i>(Title of each class)</i>	<i>(Name of each exchange on which registered)</i>

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
<b>NONE</b>

Indicate by check mark:	YES	NO
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☐	☐
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☐
• 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.	☐	☐
• whether the registrant has submitted electronically and posted on its corporate Website, 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).	☐	☐
• if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	☐	☐
• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐    Non-accelerated filer ☐    Smaller reporting company ☐    Emerging growth company ☐	
• if an emerging growth company, 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.	☐	☐
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).	☐	☐

As of November 30, 2017, the aggregate market values of the Registrant's Common Stock held by non-affiliates were:

Class A	\$	4,475,052,736
Class B		78,093,099,655
	\$	82,568,152,391

As of July 20, 2018, the number of shares of the Registrant's Common Stock outstanding were:

Class A	320,065,752
Class B	1,280,488,786
	1,600,554,538

**DOCUMENTS INCORPORATED BY REFERENCE:**

Parts of Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2018 are incorporated by reference into Part III of this Report.

---

# NIKE, INC.

## ANNUAL REPORT ON FORM 10-K

### Table of Contents

	<b>Page</b>
<b><u>PART I</u></b>	<b><u>1</u></b>
ITEM 1.	<b><u>Business</u></b>
	<b><u>General</u></b>
	<b><u>Products</u></b>
	<b><u>Sales and Marketing</u></b>
	<b><u>United States Market</u></b>
	<b><u>International Markets</u></b>
	<b><u>Significant Customer</u></b>
	<b><u>Product Research, Design and Development</u></b>
	<b><u>Manufacturing</u></b>
	<b><u>International Operations and Trade</u></b>
	<b><u>Competition</u></b>
	<b><u>Trademarks and Patents</u></b>
	<b><u>Employees</u></b>
	<b><u>Executive Officers of the Registrant</u></b>
ITEM 1A.	<b><u>Risk Factors</u></b>
ITEM 1B.	<b><u>Unresolved Staff Comments</u></b>
ITEM 2.	<b><u>Properties</u></b>
ITEM 3.	<b><u>Legal Proceedings</u></b>
ITEM 4.	<b><u>Mine Safety Disclosures</u></b>
<b><u>PART II</u></b>	<b><u>16</u></b>
ITEM 5.	<b><u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></b>
ITEM 6.	<b><u>Selected Financial Data</u></b>
ITEM 7.	<b><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>
ITEM 7A.	<b><u>Quantitative and Qualitative Disclosures about Market Risk</u></b>
ITEM 8.	<b><u>Financial Statements and Supplementary Data</u></b>
ITEM 9.	<b><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></b>
ITEM 9A.	<b><u>Controls and Procedures</u></b>
ITEM 9B.	<b><u>Other Information</u></b>
<b><u>PART III</u></b>	<b><u>74</u></b>
	(Except for the information set forth under “Executive Officers of the Registrant” in Item 1 above, Part III is incorporated by reference from the Proxy Statement for the NIKE, Inc. 2018 Annual Meeting of Shareholders.)
ITEM 10.	<b><u>Directors, Executive Officers and Corporate Governance</u></b>
ITEM 11.	<b><u>Executive Compensation</u></b>
ITEM 12.	<b><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></b>
ITEM 13.	<b><u>Certain Relationships and Related Transactions and Director Independence</u></b>
ITEM 14.	<b><u>Principal Accountant Fees and Services</u></b>
<b><u>PART IV</u></b>	<b><u>75</u></b>
ITEM 15.	<b><u>Exhibits and Financial Statement Schedules</u></b>

ITEM 16.	<a href="#">Form 10-K Summary</a>	78
	<a href="#">Signatures</a>	80

---

# PART I

## ITEM 1. Business

### General

---

NIKE, Inc. was incorporated in 1967 under the laws of the State of Oregon. As used in this report, the terms “we,” “us,” “NIKE” and the “Company” refer to NIKE, Inc. and its predecessors, subsidiaries and affiliates, collectively, unless the context indicates otherwise. Our NIKE digital commerce website is located at [www.nike.com](http://www.nike.com). On our NIKE corporate website, located at [investors.nike.com](http://investors.nike.com), we post the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the United States Securities and Exchange Commission (the “SEC”): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended. Our definitive Proxy Statements are also posted on our corporate website. All such filings on our corporate website are available free of charge. Copies of these filings may also be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330 and are available on the SEC’s website ([www.sec.gov](http://www.sec.gov)). Also available on our corporate website are the charters of the committees of our Board of Directors, as well as our corporate governance guidelines and code of ethics; copies of any of these documents will be provided in print to any shareholder who submits a request in writing to NIKE Investor Relations, One Bowerman Drive, Beaverton, Oregon 97005-6453.

Our principal business activity is the design, development and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services. NIKE is the largest seller of athletic footwear and apparel in the world. We sell our products through NIKE-owned retail stores and through digital platforms (which we refer to collectively as our “NIKE Direct” operations), to retail accounts and a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Virtually all of our products are manufactured by independent contractors. Nearly all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.

### Products

---

We focus our NIKE Brand product offerings in six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). We also market products designed for kids, as well as for other athletic and recreational uses such as American football, baseball, cricket, lacrosse, skateboarding, tennis, volleyball, wrestling, walking and outdoor activities.

NIKE’s athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. We place considerable emphasis on innovation and high-quality construction in the development and manufacturing of our products. Sportswear, Running and the Jordan Brand are currently our top-selling footwear categories and we expect them to continue to lead in footwear sales.

We also sell sports apparel covering the above-mentioned categories, which feature the same trademarks and are sold predominantly through the same marketing and distribution channels as athletic footwear. Our sports apparel, similar to our athletic footwear products, is designed primarily for athletic use and exemplifies our commitment to innovation and high-quality construction. Sportswear, Training and Running are currently our top-selling apparel categories and we expect them to continue to lead in apparel sales. We often market footwear, apparel and accessories in “collections” of similar use or by category. We also market apparel with licensed college and professional team and league logos.

We sell a line of performance equipment and accessories under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, digital devices, bats, gloves, protective equipment and other equipment designed for sports activities. We also sell small amounts of various plastic products to other manufacturers through our wholly-owned subsidiary, NIKE IHM, Inc., doing business as Air Manufacturing Innovation.

Our Jordan Brand designs, distributes and licenses athletic and casual footwear, apparel and accessories predominantly focused on basketball using the Jumpman trademark. Sales and operating results for Jordan Brand products are reported within the respective NIKE Brand geographic operating segments.

One of our wholly-owned subsidiary brands, Converse, headquartered in Boston, Massachusetts, designs, distributes and licenses casual sneakers, apparel and accessories under the Converse, Chuck Taylor, All Star, One Star, Star Chevron and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

Another of our wholly-owned subsidiary brands, Hurley, headquartered in Costa Mesa, California, designs and distributes a line of action sports and youth lifestyle apparel and accessories under the Hurley trademark. Sales and operating results for Hurley products are included within the NIKE Brand’s North America geographic operating segment.

In addition to the products we sell to our wholesale customers and directly to consumers through our NIKE Direct operations, we have also entered into license agreements that permit unaffiliated parties to manufacture and sell, using NIKE-owned trademarks, certain apparel, digital devices and applications and other equipment designed for sports activities.

---

## Sales and Marketing

---

Financial information about geographic and segment operations appears in Note 17 — Operating Segments and Related Information of the accompanying Notes to the Consolidated Financial Statements.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in the first and fourth fiscal quarters have slightly exceeded those in the second and third quarters. However, the mix of product sales may vary considerably as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment, as well as other macroeconomic, operating and logistics-related factors.

Because NIKE is a consumer products company, the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. We must, therefore, respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories and influencing sports and fitness preferences through extensive marketing. Failure to respond in a timely and adequate manner could have a material adverse effect on our sales and profitability. This is a continuing risk. Refer to Item 1A. Risk Factors.

We report our NIKE Brand operations based on our internal geographic organization. Each NIKE Brand geographic segment operates predominantly in one industry: the design, development, marketing and selling of athletic footwear, apparel and equipment. In June 2017, we announced a new company alignment designed to allow NIKE to better serve the consumer personally, at scale. As a result of this organizational realignment, the Company's reportable operating segments for the NIKE Brand are: North America; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA), and include results for the NIKE, Jordan and Hurley brands. Sales through our NIKE Direct operations are managed within each geographic operating segment.

Converse is also a reportable segment and operates in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. Converse direct to consumer operations, including digital commerce, are reported within the Converse operating segment results.

## United States Market

---

For fiscal 2018, NIKE Brand and Converse sales in the United States accounted for approximately 42% of total revenues, compared to 46% and 47% for fiscal 2017 and fiscal 2016, respectively. We sell our NIKE Brand, Jordan Brand, Hurley and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops and other retail accounts. In the United States, we utilize NIKE sales offices to solicit such sales. During fiscal 2018, our three largest customers accounted for approximately 21% of sales in the United States.

Our NIKE Direct and Converse direct to consumer operations sell NIKE Brand, Jordan Brand, Hurley and Converse products to consumers through various digital platforms. In addition, our NIKE Direct and Converse direct to consumer operations sell through the following number of retail stores in the United States:

<b>U.S. Retail Stores</b>	<b>Number</b>
NIKE Brand factory stores	220
NIKE Brand in-line stores (including employee-only stores)	31
Converse stores (including factory stores)	112
Hurley stores (including factory and employee stores)	29
<b>TOTAL</b>	<b>392</b>

In the United States, NIKE has seven significant distribution centers. Five are located in Memphis, Tennessee, two of which are owned and three of which are leased. Two other distribution centers, one located in Indianapolis, Indiana, and one located in Dayton, Tennessee, are leased and operated by third-party logistics providers. NIKE Brand apparel and equipment are also shipped from our Foothill Ranch, California distribution center, which we lease. Smaller leased, and third-party leased and operated, distribution facilities are located in various parts of the United States.

## International Markets

---

For fiscal 2018, non-U.S. NIKE Brand and Converse sales accounted for approximately 58% of total revenues, compared to 54% and 53% for fiscal 2017 and fiscal 2016, respectively. We sell our products to retail accounts, through our own NIKE Direct operations and through a mix of independent distributors, licensees and sales representatives around the world. We sell to thousands of retail accounts and ship products from 62 distribution centers outside of the United States. During fiscal 2018, NIKE's three largest customers outside of the United States accounted for approximately 13% of total non-U.S. sales.

In addition to NIKE and Converse owned digital commerce platforms in over 45 countries, our NIKE Direct and Converse direct to consumer businesses operate the following number of retail stores outside the United States:

<b>Non-U.S. Retail Stores</b>	<b>Number</b>
NIKE Brand factory stores	664



NIKE Brand in-line stores (including employee-only stores)	65
Converse stores (including factory stores)	61
<b>TOTAL</b>	<b>790</b>

---

International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Macau, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Panama, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

## Significant Customer

---

No customer accounted for 10% or more of our worldwide net revenues during fiscal 2018.

## Product Research, Design and Development

---

We believe our research, design and development efforts are key factors in our success. Technical innovation in the design and manufacturing process of footwear, apparel and athletic equipment receives continued emphasis as we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, while reducing waste.

In addition to our own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, we also utilize research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts who consult with us and review designs, materials, concepts for product and manufacturing process improvements and compliance with product safety regulations around the world. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

As we continue to develop new technologies, we are simultaneously focused on the design of innovative products incorporating such technologies throughout our product categories. Using market intelligence and research, our various design teams identify opportunities to leverage new technologies in existing categories responding to consumer preferences. The proliferation of NIKE Air, Lunar, Zoom, Free, Flywire, Dri-Fit, Flyknit, Flyweave, ZoomX, React and NIKE+ technologies throughout our Running, NIKE Basketball, Jordan Brand, Football (Soccer), Training and Sportswear categories, among others, typifies our dedication to designing innovative products.

## Manufacturing

---

We are supplied by 124 footwear factories located in 13 countries. The largest single footwear factory accounted for approximately 9% of total fiscal 2018 NIKE Brand footwear production. Virtually all of our footwear is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2018, contract factories in Vietnam, China and Indonesia manufactured approximately 47%, 26% and 21% of total NIKE Brand footwear, respectively. We also have manufacturing agreements with independent contract manufacturers in Argentina, India, Brazil, Mexico and Italy to manufacture footwear for sale primarily within those countries. For fiscal 2018, five footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 69% of NIKE Brand footwear production.

We are supplied by 328 apparel factories located in 37 countries. The largest single apparel factory accounted for approximately 13% of total fiscal 2018 NIKE Brand apparel production. Virtually all of our apparel is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2018, contract factories in China, Vietnam and Thailand produced approximately 26%, 18% and 10% of total NIKE Brand apparel, respectively. For fiscal 2018, one apparel contract manufacturer accounted for more than 10% of apparel production, and the top five contract manufacturers in the aggregate accounted for approximately 47% of NIKE Brand apparel production.

The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, natural and synthetic leather, nylon, polyester and canvas, as well as polyurethane films used to make NIKE Air-Sole cushioning components. During fiscal 2018, Air Manufacturing Innovation, with facilities near Beaverton, Oregon and in St. Charles, Missouri, as well as independent contractors in China and Vietnam, were our suppliers of the Air-Sole cushioning components used in footwear. The principal materials used in our apparel products are natural and synthetic fabrics and threads (both virgin and recycled); specialized performance fabrics designed to efficiently wick moisture away from the body, retain heat and repel rain and/or snow; and plastic and metal hardware. NIKE's independent contractors and suppliers buy raw materials for the manufacturing of our footwear, apparel and equipment products. Most raw materials are available and purchased by those independent contractors and suppliers in the countries where manufacturing takes place. NIKE's independent contract manufacturers and suppliers have thus far experienced little difficulty in satisfying raw material requirements for the production of our products.

Since 1972, Sojitz Corporation of America ("Sojitz America"), a large Japanese trading company and the sole owner of our redeemable preferred stock, has performed significant import-export financing services for us. During fiscal 2018, Sojitz America provided financing and purchasing services for NIKE Brand products sold in certain NIKE markets including Argentina, Brazil, Canada, India, South Africa and Uruguay, excluding products produced and sold in the same country. Approximately 6% of NIKE Brand sales occurred in those countries. Any failure of Sojitz America to provide these services or any failure of Sojitz America's banks could disrupt our ability to acquire products from our suppliers and to deliver products to our customers in those markets. Such a disruption could result in canceled orders that would adversely affect sales and profitability. However, we believe that any such disruption would be short-term in duration due to the ready availability of alternative sources of financing at competitive rates. Our current agreements with Sojitz America expire on May 31, 2019.

## International Operations and Trade

---

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as the implementation of, or potential changes in, foreign and domestic trade policies, increases in import duties, anti-dumping measures, quotas, safeguard measures, trade restrictions, restrictions on the transfer of funds and, in certain parts of the world, political instability and terrorism. We have not, to date, been materially affected by any such risk, but cannot predict the likelihood of such material effects occurring in the future.

---

In recent years, uncertain global and regional economic and political conditions have affected international trade and increased protectionist actions around the world. These trends are affecting many global manufacturing and service sectors, and the footwear and apparel industries, as a whole, are not immune. Companies in our industry are facing trade protectionism in many different regions, and in nearly all cases we are working together with industry groups to address trade issues and reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, protectionist measures have resulted in increases in the cost of our products, and additional measures, if implemented, could adversely affect sales and/or profitability for NIKE, as well as the imported footwear and apparel industry as a whole.

We monitor protectionist trends and developments throughout the world that may materially impact our industry, and we engage in administrative and judicial processes to mitigate trade restrictions. We are actively monitoring actions that may result in additional anti-dumping measures and could affect our industry. We are also monitoring for and advocating against other impediments that may limit or delay customs clearance for imports of footwear, apparel and equipment. Changes in U.S. trade policies, including new and potential tariffs or penalties on imported goods, may negatively affect U.S. corporations with production activities outside the U.S., including NIKE. There have also been discussions and commentary regarding retaliatory actions by countries affected by the new tariffs and other changes in U.S. trade policy, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods, which could negatively affect U.S. corporations with business operations and/or consumer markets in those countries. Depending on the extent that certain new or proposed reforms are implemented by the U.S. government and the manner in which foreign governments respond to such reforms, it may become necessary for us to change the way we conduct business, which may adversely affect our results of operations. In addition, with respect to proposed trade restrictions targeting China, which represents an important sourcing country and consumer market for us, we are working with a broad coalition of global businesses and trade associations representing a wide variety of sectors to help ensure that any legislation enacted and implemented (i) addresses legitimate and core concerns, (ii) is consistent with international trade rules and (iii) reflects and considers China's domestic economy and the important role it has in the global economic community.

Where trade protection measures are implemented, we believe that we have the ability to develop, over a period of time, adequate alternative sources of supply for the products obtained from our present suppliers. If events prevented us from acquiring products from our suppliers in a particular country, our operations could be temporarily disrupted and we could experience an adverse financial impact. However, we believe we could abate any such disruption, and that much of the adverse impact on supply would, therefore, be of a short-term nature, although alternate sources of supply might not be as cost-effective and could have an ongoing adverse impact on profitability.

NIKE advocates for trade liberalization for footwear and apparel in a number of regional and bilateral free trade agreements.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. We source a significant portion of our products from, and have important consumer markets, outside of the United States, and we have policies and procedures to address compliance with the FCPA and similar laws by us, our employees, agents, suppliers and other partners.

## Competition

---

The athletic footwear, apparel and equipment industry is highly competitive on a worldwide basis. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment, including adidas, Anta, ASICS, Li Ning, lululemon athletica, Puma, Under Armour and V.F. Corporation, among others. The intense competition and the rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations.

NIKE is the largest seller of athletic footwear and apparel in the world. Important aspects of competition in this industry are:

- Product attributes such as quality; performance and reliability; new product innovation and development and consumer price/value.
- Consumer connection and affinity for brands and products, developed through marketing and promotion; social media interaction; customer support and service; identification with prominent and influential athletes, public figures, coaches, teams, colleges and sports leagues who endorse our brands and use our products and active engagement through sponsored sporting events and clinics.
- Effective sourcing and distribution of products, with attractive merchandising and presentation at retail, both in-store and online.

We believe that we are competitive in all of these areas.

## Trademarks and Patents

---

We believe that our intellectual property rights are important to our brand, our success and our competitive position. We pursue available protections of these rights and vigorously protect them against third-party theft and infringement.

We utilize trademarks on nearly all of our products and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and the Company, and in distinguishing our goods from the goods of others. We consider our NIKE and Swoosh trademarks to be among our most valuable assets and we have registered these trademarks in almost 170 jurisdictions worldwide. In addition, we own many other trademarks that we utilize in marketing our products. We own common law rights in the trade dress of several significant shoe designs and elements. For certain trade dress, we have sought and obtained trademark registrations.

We have copyright protection in our design, graphics and other original works. In some instances, we also obtain registered copyrights.

We own patents and have a license under other patents, which facilitate our use of "Air" technologies.

We file for, own and maintain many U.S. and foreign utility patents, as well as many U.S. and foreign design patents protecting components, technologies, materials, manufacturing techniques, features, functionality, and industrial and aesthetic designs used in and for the manufacture of various athletic and leisure footwear and apparel, athletic equipment and digital devices and related software applications.

These patents expire at various times.

---

We believe our success depends upon our capabilities in areas such as design, research and development, production and marketing rather than exclusively upon our patent and trade secret positions.

However, we have followed a policy of filing patent applications in the United States and select foreign countries on inventions, designs and improvements that we deem valuable. We also continue to vigorously protect our trademarks and patents against third-party infringement.

## Employees

---

As of May 31, 2018, we had approximately 73,100 employees worldwide, including retail and part-time employees. Management is committed to maintaining an environment where all NIKE employees have the opportunity to reach their full potential. None of our employees are represented by a union, except for certain employees in the Asia Pacific & Latin America geography, where local law requires those employees to be represented by a trade union. Also, in some countries outside of the United States, local laws require employee representation by works councils (which may be entitled to information and consultation on certain Company decisions) or by organizations similar to a union. In certain European countries, we are required by local law to enter into and/or comply with industry-wide or national collective bargaining agreements. NIKE has never experienced a material interruption of operations due to labor disagreements.

## Executive Officers of the Registrant

---

The executive officers of NIKE, Inc. as of July 24, 2018 are as follows:

**Mark G. Parker**, Chairman, President and Chief Executive Officer — Mr. Parker, 62, was appointed President and Chief Executive Officer in January 2006 and named Chairman of the Board in June 2016. He has been employed by NIKE since 1979 with primary responsibilities in product research, design and development, marketing and brand management. Mr. Parker was appointed divisional Vice President in charge of product development in 1987, corporate Vice President in 1989, General Manager in 1993, Vice President of Global Footwear in 1998 and President of the NIKE Brand in 2001.

**Chris L. Abston**, Vice President and Corporate Controller — Mr. Abston, 55, joined NIKE in 2015 from Wal-Mart Stores, Inc., where he served as Vice President, Global Controls and Governance since February 2015. Prior to that he was Vice President and Controller of Walmart International from February 2013 to January 2015, responsible for the oversight of international accounting and reporting, and Vice President and Assistant Controller of Wal-Mart Stores, Inc. from May 2011 to January 2013. Before joining Wal-Mart, Mr. Abston spent 25 years in public accounting with Ernst & Young LLP, most recently leading its Strategic Growth Markets practice as a Partner in the Dallas office.

**Andrew Campion**, Executive Vice President and Chief Financial Officer — Mr. Campion, 46, joined NIKE in 2007 as Vice President of Global Planning and Development, leading strategic and financial planning. He was appointed Chief Financial Officer of the NIKE Brand in 2010, responsible for leading all aspects of financial management for the Company's flagship brand. In 2014, he was appointed Senior Vice President, Strategy, Finance and Investor Relations in addition to his role as Chief Financial Officer of NIKE Brand. Mr. Campion assumed the role of Executive Vice President and Chief Financial Officer in August 2015. Prior to joining NIKE, he held leadership roles in strategic planning, mergers and acquisitions, financial planning and analysis, operations and planning, investor relations and tax at The Walt Disney Company from 1996 to 2007.

**Elliott Hill**, President, Consumer and Marketplace — Mr. Hill, 54, joined NIKE in 1988, with primary responsibilities in sales and retail. He has served as Apparel Sales Director in Europe, Retail Development Director in Europe, Vice President of Sales and Retail in EMEA, General Manager of US Retail, Vice President of US Sales, Retail and NIKE.com, and Vice President of Global Retail. Most recently, Mr. Hill served as President of Geographies and Sales and Vice President and General Manager of North America. Mr. Hill was appointed President, Consumer and Marketplace in March 2018.

**Hilary K. Krane**, Executive Vice President, Chief Administrative Officer and General Counsel — Ms. Krane, 54, joined NIKE as Vice President and General Counsel in April 2010. In 2011, her responsibilities expanded, and she became Vice President, General Counsel and Corporate Affairs. Ms. Krane was appointed Executive Vice President, Chief Administrative Officer and General Counsel in 2013. Prior to joining NIKE, Ms. Krane was General Counsel and Senior Vice President for Corporate Affairs at Levi Strauss & Co. from 2006 to 2010. From 1996 to 2006, she was a Partner and Assistant General Counsel at PricewaterhouseCoopers LLP.

**Monique S. Matheson**, Executive Vice President, Global Human Resources — Ms. Matheson, 51, joined NIKE in 1998, with primary responsibilities in the human resources function. She was appointed as Vice President and Senior Business Partner in 2011 and Vice President, Chief Talent and Diversity Officer in 2012. Ms. Matheson was appointed Executive Vice President, Global Human Resources in July 2017.

**John F. Slusher**, Executive Vice President, Global Sports Marketing — Mr. Slusher, 49, joined NIKE in 1998, with primary responsibilities in global sports marketing. Mr. Slusher was appointed Director of Sports Marketing for Asia Pacific and Americas in 2006, divisional Vice President of Asia Pacific & Americas Sports Marketing in September 2007 and Vice President, Global Sports Marketing in November 2007. Prior to joining NIKE, Mr. Slusher was an attorney at the law firm of O'Melveny & Myers from 1995 to 1998.

**Eric D. Sprunk**, Chief Operating Officer — Mr. Sprunk, 54, joined NIKE in 1993. He was appointed Finance Director and General Manager of the Americas in 1994, Finance Director for NIKE Europe in 1995, Regional General Manager of NIKE Europe Footwear in 1998 and Vice President & General Manager of the Americas in 2000. Mr. Sprunk was appointed Vice President of Global Footwear in 2001, Vice President of Merchandising and Product in 2009 and Chief Operating Officer in 2013. Prior to joining NIKE, Mr. Sprunk was a certified public accountant with Price Waterhouse from 1987 to 1993.

---

# ITEM 1A. Risk Factors

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

Certain written and oral statements, other than purely historic 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 SEC, 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, as amended. 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 SEC, including reports filed on 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 technology systems and controls, including, without limitation, the systems related to demand and supply planning and inventory control; interruptions in data and information technology systems; consumer data security; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance orders may not be indicative of future revenues due to changes in shipment timing, the changing mix of orders with shorter lead times, and discounts, order cancellations and returns; the ability of NIKE to sustain, manage or forecast its growth and inventories; the size, timing and mix of purchases of NIKE's products; increases in the cost of materials, labor and energy used to manufacture products; new product development and introduction; the ability to secure and protect trademarks, patents and other intellectual property; product performance and quality; customer service; adverse publicity, including without limitation, through social media or in connection with brand damaging events; the loss of significant customers or suppliers; dependence on distributors and licensees; business disruptions; increased costs of freight and transportation to meet delivery deadlines; increases in borrowing costs due to any decline in NIKE's debt ratings; changes in business strategy or development plans; general risks associated with doing business outside of the United States, including, without limitation, exchange rate fluctuations, inflation, import duties, tariffs, quotas, political and economic instability and terrorism; the impact of recent U.S. tax reform legislation on our results of operations; the potential impact of new laws, regulations or policy, including, without limitation, tariffs, import/export, trade and immigration regulations or policies; changes in government regulations; the impact of, including business and legal developments relating to, climate change and natural disasters; litigation, regulatory proceedings and other claims asserted against NIKE; the ability to attract and retain qualified employees, and any negative public perception with respect to key personnel; the effects of NIKE's decision to invest in or divest of businesses 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 risks emerge from time to time and it is not possible for management to predict all such risks, nor can it assess the impact of all such risks on NIKE's business or the extent to which any risk, or combination of risks, 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.

### **Our products face intense competition.**

NIKE is a consumer products company and the relative popularity of various sports and fitness activities and changing design trends affect the demand for our products. The athletic footwear, apparel and equipment industry is highly competitive both in the United States and worldwide. We compete internationally with a significant number of athletic and leisure footwear companies, athletic and leisure apparel companies, sports equipment companies and large companies having diversified lines of athletic and leisure footwear, apparel and equipment. We also compete with other companies for the production capacity of independent manufacturers that produce our products. Our NIKE Direct operations, both through our digital commerce operations and retail stores, also compete with multi-brand retailers selling our products.

Product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, customer service, digital commerce platforms and social media presence are areas of intense competition. This, in addition to rapid changes in technology and consumer preferences in the markets for athletic and leisure footwear and apparel and athletic equipment, constitute significant risk factors in our operations. In addition, the competitive nature of retail including shifts in the ways in which consumers are shopping, and the rising trend of digital commerce, constitutes a risk factor implicating our NIKE Direct and wholesale operations. If we do not adequately and timely anticipate and respond to our competitors, our costs may increase or the consumer demand for our products may decline significantly.

### **Failure to maintain our reputation and brand image could negatively impact our business.**

Our iconic brands have worldwide recognition, and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining, promoting and growing our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, product innovation and product quality. Our commitment to product innovation and quality and our continuing investment in design (including materials) and marketing may not have the desired impact on our brand image and reputation. In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and digital dissemination of advertising campaigns. We could be adversely impacted if we fail to achieve any of these objectives.





Our brand value also depends on our ability to maintain a positive consumer perception of our corporate integrity and brand culture. Negative claims or publicity involving us, our products or any of our key employees, endorsers, sponsors or suppliers could seriously damage our reputation and brand image, regardless of whether such claims are accurate. Social media, which accelerates and potentially amplifies the scope of negative publicity, can increase the challenges of responding to negative claims. Adverse publicity about regulatory or legal action against us, or by us, could also damage our reputation and brand image, undermine consumer confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. If the reputation or image of any of our brands is tarnished or if we receive negative publicity, then our product sales, financial condition and results of operations could be materially and adversely affected.

**If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our revenues and profits.**

Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. However, lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, and influencing sports and fitness preferences through extensive marketing, we could experience lower sales, excess inventories or lower profit margins, any of which could have an adverse effect on our results of operations and financial condition. In addition, we market our products globally through a diverse spectrum of advertising and promotional programs and campaigns, including social media, mobile applications and online advertising. If we do not successfully market our products or if advertising and promotional costs increase, these factors could have an adverse effect on our business, financial condition and results of operations.

**We rely on technical innovation and high-quality products to compete in the market for our products.**

Technical innovation and quality control in the design and manufacturing process of footwear, apparel and athletic equipment is essential to the commercial success of our products. Research and development play a key role in technical innovation. We rely upon specialists in the fields of biomechanics, chemistry, exercise physiology, engineering, industrial design, sustainability and related fields, as well as research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other experts to develop and test cutting-edge performance products. While we strive to produce products that help to enhance athletic performance, reduce injury and maximize comfort, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems.

**Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.**

We establish relationships with professional athletes, sports teams and leagues, as well as other public figures, to develop, evaluate and promote our products, as well as establish product authenticity with consumers. However, as competition in our industry has increased, the costs associated with establishing and retaining such sponsorships and other relationships have increased. If we are unable to maintain our current associations with professional athletes, sports teams and leagues, or other public figures, or to do so at a reasonable cost, we could lose the high visibility or on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brands, net revenues, expenses and profitability could be harmed.

Furthermore, if certain endorsers were to stop using our products contrary to their endorsement agreements, our business could be adversely affected. In addition, actions taken by athletes, teams or leagues, or other endorsers, associated with our products that harm the reputations of those athletes, teams or leagues, or endorsers, could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition. In addition, poor performance by our endorsers, a failure to continue to correctly identify promising athletes, or public figures, to use and endorse our products or a failure to enter into cost-effective endorsement arrangements with prominent athletes, public figures, and sports organizations could adversely affect our brand, sales and profitability.

**General economic factors beyond our control, and changes in the global economic environment, including fluctuations in inflation and currency exchange rates, could result in lower revenues, higher costs and decreased margins and earnings.**

A majority of our products are manufactured and sold outside of the United States, and we conduct purchase and sale transactions in various currencies, which increases our exposure to the volatility of global economic conditions, including fluctuations in inflation and foreign currency exchange rates. Additionally, there has been, and may continue to be, volatility in currency exchange rates as a result of the United Kingdom's impending exit from the European Union, commonly referred to as "Brexit" and new or proposed U.S. policy changes. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into U.S. Dollars for consolidated financial reporting, as weakening of foreign currencies relative to the U.S. Dollar adversely affects the U.S. Dollar value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations have adversely affected and could continue to have an adverse effect on our results of operations and financial condition.

We may hedge certain foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger U.S. Dollar or other trading currency, but they also reduce the positive impact of a weaker U.S. Dollar or other trading currency. Our future financial results could be significantly affected by the value of the U.S. Dollar in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities.

[View Original Document](#)