

NIKE INC
Form 10-K
July 20, 2010
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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, 2010

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)

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Oregon
(State or other jurisdiction)

93-0584541
(IRS Employer)

(of incorporation)

(Identification No.)

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

(503) 671-6453
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Class B Common Stock
(Title of Each Class)

New York Stock Exchange
(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 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 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. ☒

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller Reporting Company ☐

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

As of November 30, 2009, the aggregate market value of the Registrant's Class A Common Stock held by non-affiliates of the Registrant was \$1,511,237,745 and the aggregate market value of the Registrant's Class B Common Stock held by non-affiliates of the Registrant was \$25,728,584,624.

As of July 16, 2010, the number of shares of the Registrant's Class A Common Stock outstanding was 89,989,448 and the number of shares of the Registrant's Class B Common Stock outstanding was 393,030,005.

DOCUMENTS INCORPORATED BY REFERENCE:

Parts of Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2010 are incorporated by reference into Part III of this Report.

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NIKE, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business
General

NIKE, Inc. was incorporated in 1968 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, unless the context indicates otherwise. Our Internet address is www.nike.com. On our NIKE Corporate web site, located at www.nikebiz.com, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: 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. All such filings on our NIKE Corporate web site are available free of charge. Also available on the NIKE Corporate web site 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 of high quality footwear, apparel, equipment, and accessory products. NIKE is the largest seller of athletic footwear and athletic apparel in the world. We sell our products to retail accounts, through NIKE-owned retail including stores and internet sales, and through a mix of independent distributors and licensees, in over 170 countries around the world. Virtually all of our products are manufactured by independent contractors. Virtually all footwear and apparel products are produced outside the United States, while equipment products are produced both in the United States and abroad.

Products

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 high quality construction and innovation in products designed for men, women and children. Running, training, basketball, soccer, sport-inspired casual shoes, and kids' shoes are currently our top-selling footwear categories and we expect them to continue to lead in product sales in the near future. We also market footwear designed for aquatic activities, baseball, cheerleading, football, golf, lacrosse, outdoor activities, skateboarding, tennis, volleyball, walking, wrestling, and other athletic and recreational uses.

We sell sports apparel and accessories covering most of the above categories, sports-inspired lifestyle apparel, as well as athletic bags and accessory items. NIKE apparel and accessories feature the same trademarks and are sold through the same marketing and distribution channels. We often market footwear, apparel and accessories in collections of similar design or for specific purposes. We also market apparel with licensed college and professional team and league logos.

We sell a line of performance equipment under the NIKE Brand name, including bags, socks, sport balls, eyewear, timepieces, electronic devices, bats, gloves, protective equipment, golf clubs, 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.

In addition to the products we sell directly to customers, we have entered into license agreements that permit unaffiliated parties to manufacture and sell certain apparel, electronic devices and other equipment designed for sports activities.

Our wholly-owned subsidiary, Cole Haan (Cole Haan), headquartered in Yarmouth, Maine, designs and distributes dress and casual footwear, apparel and accessories for men and women under the Cole Haan® trademark.

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Our wholly-owned subsidiary, Converse Inc. (Converse), headquartered in North Andover, Massachusetts, designs, distributes and licenses athletic and casual footwear, apparel and accessories under the Converse®, Chuck Taylor®, All Star®, One Star®, Star Chevron and Jack Purcell® trademarks.

Our wholly-owned subsidiary, Hurley International LLC (Hurley), headquartered in Costa Mesa, California, designs and distributes a line of action sports and youth lifestyle apparel and accessories under the Hurley® trademark.

Our wholly-owned subsidiary, Umbro Ltd. (Umbro), headquartered in Cheadle, England, designs, distributes and licenses athletic and casual footwear, apparel and equipment, primarily for the sport of football (soccer), under the Umbro® trademark.

Sales and Marketing

Financial information about geographic and segment operations appears in Note 19 of the accompanying Notes to the Consolidated Financial Statements on page 88.

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.

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 aggressive 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.

We report our NIKE Brand operations based on our internal geographic organization. Each NIKE Brand geography operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment. In the third quarter of fiscal 2009, we initiated a reorganization of the NIKE Brand into a new model consisting of six geographies. Effective June 1, 2009, we began operating under our new organizational structure for the NIKE Brand, which consists of the following geographies: North America, Western Europe, Central and Eastern Europe, Greater China, Japan, and Emerging Markets. Previously, NIKE Brand operations were organized into the following four geographic regions: U.S.; Europe; Middle East and Africa (collectively, EMEA); Asia Pacific; and Americas.

United States Market

In fiscal 2010 and 2009, sales in the United States including U.S. sales of our Other Businesses accounted for approximately 42% of total revenues, compared to 43% in fiscal 2008. For fiscal 2010 and 2009, our Other Businesses were primarily comprised of Cole Haan, Converse, Hurley, NIKE Golf and Umbro (which was acquired on March 3, 2008). For fiscal 2008, our Other Businesses were primarily comprised of Cole Haan, Converse, Exeter (whose primary business was the Starter brand business which was sold on December 17, 2007), Hurley, NIKE Bauer Hockey (which was sold on April 17, 2008), NIKE Golf and Umbro. We estimate that we sell to more than 23,000 retail accounts in the United States. The NIKE Brand domestic retail account base includes a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skate, tennis and golf shops, and other retail accounts. During fiscal 2010, our three largest customers accounted for approximately 24% of sales in the United States.

We make substantial use of our futures ordering program, which allows retailers to order five to six months in advance of delivery with the commitment that their orders will be delivered within a set time

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period at a fixed price. In fiscal 2010 and 2009, 89% of our U.S. wholesale footwear shipments (excluding our Other Businesses) were made under the futures program, compared to 90% in fiscal 2008. In fiscal 2010, 62% of our U.S. wholesale apparel shipments (excluding our Other Businesses) were made under the futures program, compared to 60% in fiscal 2009 and 62% in fiscal 2008.

We utilize 19 NIKE sales offices to solicit sales in the United States. We also utilize 4 independent sales representatives to sell specialty products for golf and 5 for skateboarding and outdoor products. In addition, we sell NIKE Brand products through our internet website, www.nikestore.com, and we operate the following retail outlets in the United States:

U.S. Retail Stores	Number
NIKE factory stores (which carry primarily overstock and close-out merchandise)	145
NIKE stores (including one NIKE Women store)	12
NIKETOWNs (designed to showcase NIKE products)	11
NIKE employee-only stores	3
Cole Haan stores (including factory stores)	106
Converse factory stores	51
Hurley stores (including factory and employee stores)	18
Total	346

NIKE's three United States distribution centers for NIKE Brand footwear are located in Memphis, Tennessee. NIKE Brand apparel and equipment products are shipped from our Memphis, Tennessee and Foothill Ranch, California distribution centers. Cole Haan products are distributed primarily from Greenland, New Hampshire, Converse products are shipped primarily from Ontario, California, and Hurley products are distributed from Irvine, California.

International Markets

In fiscal 2010 and 2009, non-U.S. sales (including non-U.S. sales of our Other Businesses) accounted for 58% of total revenues, compared to 57% in fiscal 2008. We sell our products to retail accounts, through NIKE-owned retail stores, and through a mix of independent distributors and licensees around the world. We estimate that we sell to more than 24,000 retail accounts outside the United States, excluding sales by independent distributors and licensees. We operate 14 distribution centers outside of the United States. In many countries and regions, including Canada, Asia, some Latin American countries, and Europe, we have a futures ordering program for retailers similar to the United States futures program described above. During fiscal 2010, NIKE's three largest customers outside of the U.S. accounted for approximately 8% of total non-U.S. sales.

We operate the following retail outlets outside the United States:

Non-U.S. Retail Stores	Number
NIKE factory stores	205
NIKE stores	55
NIKETOWNs	2
NIKE employee-only stores	12
Cole Haan stores	68
Hurley stores	1
Total	343

International branch offices and subsidiaries of NIKE are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Croatia, Cyprus, the Czech Republic, Denmark, Finland, France,

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Germany, Greece, Hong Kong, Hungary, Indonesia, India, Ireland, Israel, Italy, Japan, Korea, Lebanon, Macau, Malaysia, Mexico, New Zealand, the Netherlands, Norway, 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 net sales during fiscal 2010.

Orders

Worldwide futures and advance orders for NIKE Brand athletic footwear and apparel, scheduled for delivery from June through November 2010, were \$8.8 billion compared to \$7.8 billion for the same period last year. This futures and advance order amount is calculated based upon our forecast of the actual exchange rates under which our revenues will be translated during this period, which approximate current spot rates. Reported futures and advance orders are not necessarily indicative of our expectation of revenues for this period. This is because the mix of orders can shift between advance/futures and at-once orders and the fulfillment of certain of these advance/futures orders may fall outside of the scheduled time period noted above. In addition, foreign currency exchange rate fluctuations as well as differing levels of order cancellations and discounts can cause differences in the comparisons between futures and advance orders and actual revenues. Moreover, a significant portion of our revenue is not derived from futures and advance orders, including at-once and close-out sales of NIKE footwear and apparel, wholesale sales of equipment, Cole Haan, Converse, Hurley, Umbro, NIKE Golf, and certain retail sales across all brands.

Product Research and Development

We believe our research and development efforts are a key factor in our past and future success. Technical innovation in the design of footwear, apparel, and athletic equipment receive continued emphasis as NIKE strives to produce products that help to reduce injury, enhance athletic performance and maximize comfort.

In addition to NIKE's own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, industrial design, 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, and concepts for product improvement. Employee athletes, athletes engaged under sports marketing contracts and other athletes wear-test and evaluate products during the design and development process.

Manufacturing

Virtually all of our footwear is produced by factories we contract with outside of the United States. In fiscal 2010, contract factories in Vietnam, China, Indonesia, Thailand, and India manufactured approximately 37%, 34%, 23%, 2% and 1% of total NIKE Brand footwear, respectively. We also have manufacturing agreements with independent factories in Argentina, Brazil, India, and Mexico to manufacture footwear for sale primarily within those countries. The largest single footwear factory that we have contracted with accounted for approximately 5% of total fiscal 2010 footwear production.

Almost all of NIKE Brand apparel is manufactured outside of the United States by independent contract manufacturers located in 33 countries. Most of this apparel production occurred in China, Thailand, Indonesia, Malaysia, Vietnam, Sri Lanka, Turkey, Cambodia, El Salvador, Mexico, and Taiwan. The largest single apparel factory that we have contracted with accounted for approximately 7% of total fiscal 2010 apparel production. The principal materials used in our footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, nylon, leather, canvas, and polyurethane films used to make Air-Sole cushioning

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components. During fiscal 2010, NIKE IHM, Inc., a wholly-owned subsidiary of NIKE, and independent contractors in China and Taiwan, were our largest 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, plastic and metal hardware, and specialized performance fabrics designed to repel rain, retain heat, or efficiently transport body moisture. NIKE's contractors and suppliers buy raw materials in bulk. Most raw materials are available in the countries where manufacturing takes place. We have thus far experienced little difficulty in satisfying our raw material requirements.

Since 1972, Sojitz Corporation of America (Sojitz America), a large Japanese trading company, has performed significant import-export financing services for us. During fiscal 2010, Sojitz America provided financing and purchasing services for NIKE Brand products sold in Argentina, Uruguay, Canada, Brazil, India, Indonesia, the Philippines, Malaysia, South Africa, China, Korea, and Thailand, excluding products produced and sold in the same country. Approximately 17% 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 outside of the United States, Europe, Middle East, Africa and Japan. Such a disruption could result in cancelled 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, 2011.

International Operations and Trade

Our international operations and sources of supply are subject to the usual risks of doing business abroad, such as possible revaluation of currencies, export and 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 developments occurring.

The current global economic recession has resulted in a significant slow down in international trade and a sharp rise in 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 protectionist challenges in many different regions, and in nearly all cases we are working together to address trade issues to reduce the impact to the industry, while observing applicable competition laws. Notwithstanding our efforts, such actions, if implemented, could result in increases in the cost of our products, which could adversely affect our sales or profitability and the imported footwear and apparel industry as a whole. Accordingly, we are actively monitoring the developments described below.

Footwear Imports into the European Union

In 2005, at the request of the European domestic footwear industry, the European Commission (EC) initiated investigations into leather footwear imported from China and Vietnam. Together with other companies in our industry, we took the position that Special Technology Athletic Footwear (STAF) (i) should not be within the scope of the investigation, and (ii) does not meet the legal requirements of injury and price in an anti-dumping investigation. Our arguments were successful and the EU agreed in October 2006 on definitive duties of 16.5% for China and 10% for Vietnam for non-STAF leather footwear, but excluded STAF from the final measures. Prior to the scheduled expiration in October 2008 of the measures imposed on the non-STAF footwear, the domestic industry requested and the EC agreed to review a petition to extend these restrictions on non-STAF leather footwear. In December 2009, following a review of the ongoing restrictions, EU member states voted to extend the measures for an additional 15 months, until March 31, 2011. We expect that a decision by the EC on whether to initiate a review on these measures for a second time will take place before the end of calendar 2010.

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On February 3, 2010, the Chinese government announced it would be seeking to refer the EU decision (both on the original measures and subsequent review decision) to the World Trade Organization (WTO), and on May 18, 2010, the Dispute Settlement Body of the WTO agreed to establish a panel to rule on China's claims against the EU with respect to current anti-dumping measures in force for leather footwear exports.

Footwear Imports into Brazil and Argentina

At the request of certain domestic footwear industry participants, both Brazil and Argentina have initiated independent anti-dumping investigations against footwear made in China. Over the last two years, we have been working in broad coalition with other companies in our industry to challenge these cases on the basis that the athletic footwear being imported from China (i) should not be within the scope of the investigation, and (ii) does not meet the legal requirements of injury and price in an anti-dumping investigation. In the case of Argentina, in 2010, the final determination made by the administering authorities was favorable to us. In the case of Brazil, the administering authorities agreed to impose an anti-dumping duty against nearly all footwear from China, which we believe will impact all brands in the footwear industry. Although we do not currently expect that this decision will materially affect us, we are working with the same broad coalition of footwear companies to challenge this decision in domestic Brazilian courts as well as international forums such as the WTO.

Footwear Imports into Turkey

In 2006, Turkey introduced safeguard measures in the form of additional duties on all imported footwear into Turkey with the goal of protecting its local shoe manufacturing industry until August 2009. In June 2009, Turkish shoe-manufacturers submitted, and the Turkish Government agreed to review, a request for extension of the safeguard measures claiming that the rehabilitation process of the local Turkish industry was interrupted due to the continuing increase of footwear imports. Despite the importers opposition to the continuation of the safeguard measures, the Turkish authorities extended these safeguard measures until August 2012, but reduced the duty from \$3 per pair of footwear to \$1.60 per pair of footwear. As a result of this decision, Vietnam and Indonesia each initiated discussions with Turkey and each is seeking compensation from Turkey, which is possible under current WTO rules. These bilateral discussions are currently ongoing, and one potential outcome could involve Turkey awarding trade concessions on other products or the exclusion from the safeguard measure of certain categories of footwear. A conclusion of the first round of talks between the exporting countries is expected in September 2010.

Trade Relations with China

China represents an important sourcing and marketing country for us. Many governments around the world are concerned about China's growing and fast-paced economy, compliance with WTO rules, currency valuation, and high trade surpluses. As a result, a wide range of legislative proposals have been introduced to address these concerns. While some of these concerns may be justified, we are working with broad coalitions of global businesses and trade associations representing a wide variety of sectors (e.g., services, manufacturing, and agriculture) to help ensure 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. We believe other companies in our industry as well as most other multi-national companies are in a similar position regarding these trade measures.

In the event any of these 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. We believe our principal competitors are subject to similar risks.

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Competition

The athletic footwear, apparel, and equipment industry is keenly competitive in the United States and on a worldwide basis. We compete internationally with a significant number of athletic and leisure shoe companies, athletic and leisure apparel companies, sports equipment companies, and large companies having diversified lines of athletic and leisure shoes, apparel, and equipment, including Adidas, Puma, and 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 athletic apparel in the world. Performance and reliability of shoes, apparel, and equipment, new product development, price, product identity through marketing and promotion, and customer support and service are important aspects of competition in the athletic footwear, apparel, and equipment industry. To help market our products, we contract with prominent and influential athletes, coaches, teams, colleges and sports leagues to endorse our brands and use our products, and we actively sponsor sporting events and clinics. We believe that we are competitive in all of these areas.

Trademarks and Patents

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 the Company, and in distinguishing our goods from the goods of others. We consider our NIKE® and Swoosh Design® trademarks to be among our most valuable assets and we have registered these trademarks in over 150 countries. In addition, we own many other trademarks that we utilize in marketing our products. We continue to vigorously protect our trademarks against infringement.

NIKE has an exclusive, worldwide license to make and sell footwear using patented Air technology. The process utilizes pressurized gas encapsulated in polyurethane. Some of the early NIKE AIR® patents have expired, which may enable competitors to use certain types of similar technology. Subsequent NIKE AIR® patents will not expire for several years. We also have hundreds of U.S. and foreign utility patents, and thousands of U.S. and foreign design patents covering components and features used in various athletic and leisure shoes, apparel, and equipment. These patents expire at various times, and patents issued for applications filed this year will last from now to 2024 for design patents, and from now to 2030 for utility patents. We believe our success depends primarily upon skills in design, research and development, production, and marketing rather than upon our patent position. However, we have followed a policy of filing applications for United States and foreign patents on inventions, designs, and improvements that we deem valuable.

Employees

We had approximately 34,400 employees at May 31, 2010. Management considers its relationship with employees to be excellent. None of our employees is represented by a union, except for certain employees in the Emerging Markets geography, where local law requires those employees to be represented by a trade union, and in the United States, where certain employees of Cole Haan are represented by a union. Also, in some countries outside of the United States, local laws require representation for employees by works councils (such as in certain countries in the European Union, in which they are entitled to information and consultation on certain Company decisions) or other employee representation by an organization similar to a union, and in certain European countries, we are required by local law to enter into and/or comply with (industry wide or national) collective bargaining agreements. There has never been a material interruption of operations due to labor disagreements.

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Executive Officers of the Registrant

The executive officers of NIKE as of July 16, 2010 are as follows:

Philip H. Knight, Chairman of the Board Mr. Knight, 72, a director since 1968, is a co-founder of NIKE and, except for the period from June 1983 through September 1984, served as its President from 1968 to 1990 and from June 2000 to December 2004. Prior to 1968, Mr. Knight was a certified public accountant with Price Waterhouse and Coopers & Lybrand and was an Assistant Professor of Business Administration at Portland State University.

Mark G. Parker, Chief Executive Officer and President Mr. Parker, 54, was appointed CEO and President in January 2006. 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 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.

David J. Ayre, Vice President, Global Human Resources Mr. Ayre, 50, joined NIKE as Vice President, Global Human Resources in July 2007. Prior to joining NIKE, he held a number of senior human resource positions with PepsiCo, Inc. since 1990, most recently as head of Talent and Performance Rewards.

Donald W. Blair, Vice President and Chief Financial Officer Mr. Blair, 52, joined NIKE in November 1999. Prior to joining NIKE, he held a number of financial management positions with PepsiCo, Inc., including Vice President, Finance of Pepsi-Cola Asia, Vice President, Planning of PepsiCo's Pizza Hut Division, and Senior Vice President, Finance of The Pepsi Bottling Group, Inc. Prior to joining PepsiCo, Mr. Blair was a certified public accountant with Deloitte, Haskins, and Sells.

Charles D. Denson, President of the NIKE Brand Mr. Denson, 54, has been employed by NIKE since 1979. Mr. Denson held several management positions within the Company, including his appointments as Director of USA Apparel Sales in 1994, divisional Vice President, U.S. Sales in 1994, divisional Vice President European Sales in 1997, divisional Vice President and General Manager, NIKE Europe in 1998, Vice President and General Manager of NIKE USA in 2000, and President of the NIKE Brand in 2001.

Gary M. DeStefano, President, Global Operations Mr. DeStefano, 53, has been employed by NIKE since 1982, with primary responsibilities in sales and regional administration. Mr. DeStefano was appointed Director of Domestic Sales in 1990, divisional Vice President in charge of domestic sales in 1992, Vice President of Global Sales in 1996, Vice President and General Manager of Asia Pacific in 1997, President of USA Operations in 2001, and President of Global Operations in 2006.

Trevor Edwards, Vice President, Global Brand and Category Management Mr. Edwards, 47, joined NIKE in 1992. He was appointed Marketing Manager, Strategic Accounts, Foot Locker in 1993, Director of Marketing, the Americas in 1995, Director of Marketing, Europe in 1997, Vice President, Marketing for Europe, Middle East and Africa in 1999, and Vice President, U.S. Brand Marketing in 2000. Mr. Edwards was appointed corporate Vice President, Global Brand Management in 2002 and Vice President, Global Brand and Category Management in 2006. Prior to NIKE, Mr. Edwards was with the Colgate-Palmolive Company.

Jeanne P. Jackson, President, Direct to Consumer Ms. Jackson, 58, served as a member of the NIKE, Inc. Board of Directors from 2001 through March 2009, when she resigned from our Board and was appointed President, Direct to Consumer. She is founder and CEO of MSP Capital, a private investment company. Ms. Jackson was CEO of Walmart.com from March 2000 to January 2002. She was with Gap, Inc., as President and CEO of Banana Republic from 1995 to 2000, also serving as CEO of Gap, Inc. Direct from 1998 to 2000. Since 1978, she has held various retail management positions with Victoria's Secret, The Walt Disney Company, Saks Fifth Avenue, and Federated Department Stores. Ms. Jackson is the past President of the United States Ski and Snowboard Foundation Board of Trustees, and is a director of McDonald's Corporation. She is a former director of Nordstrom, Inc., and Harrah's Entertainment, Inc.

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Hilary K. Krane, Vice President and General Counsel Ms. Krane, 46, joined NIKE as Vice President and General Counsel in April 2010. Prior to joining NIKE, Ms. Krane was General Counsel and Senior Vice President for Corporate Affairs at Levi Strauss & Co. where she was responsible for legal affairs and overseeing the global brand protection department. From 1996 to 2006, she was a partner and assistant general counsel at PricewaterhouseCoopers LLP.

P. Eunan McLaughlin, President, Affiliates Mr. McLaughlin, 52, joined NIKE as Director of Sales, NIKE Europe in 1999, and was appointed Vice President Commercial Sales and Retail in 2000, Vice President, Asia Pacific in 2001, Vice President, Europe, Middle East & Africa in May 2004, and President of Affiliates in April 2009. Prior to joining NIKE, he was Partner and Vice President of Consumer & Retail Practices Division, Korn/Ferry International from 1996 to 1999. From 1983 to 1996, Mr. McLaughlin held various positions with Mars, Inc. in finance, sales, marketing and general management.

Bernard F. Pliska, Vice President, Corporate Controller Mr. Pliska, 48, joined NIKE as Corporate Controller in 1995. He was appointed Vice President, Corporate Controller in 2003. Prior to NIKE, Mr. Pliska was with Price Waterhouse from 1984 to 1995. Mr. Pliska is a certified public accountant.

John F. Slusher, Vice President, Global Sports Marketing Mr. Slusher, 41, has been employed by NIKE since 1998 with primary responsibilities in global sports marketing. Mr. Slusher was appointed Director of Sports Marketing for the Asia Pacific and Americas Regions in 2006, divisional Vice President, 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, Vice President, Merchandising and Product Mr. Sprunk, 46, joined NIKE in 1993. He was appointed Finance Director and General Manager of the Americas in 1994, Finance Director, NIKE Europe in 1995, Regional General Manager, NIKE Europe Footwear in 1998, and Vice President & General Manager of the Americas in 2000. Mr. Sprunk was appointed corporate Vice President, Global Footwear in 2001 and Vice President, Merchandising and Product in 2009. Prior to joining NIKE, Mr. Sprunk was a certified public accountant with Price Waterhouse from 1987 to 1993.

Hans van Alebeek, Vice President, Global Operations and Technology Mr. van Alebeek, 44, joined NIKE as Director of Operations of Europe in 1999, and was appointed Vice President, Operations & Administration in EMEA in 2001, Vice President, Global Operations in 2003, Vice President, Global Operations & Technology in 2004, and Corporate Vice President in November 2005. Prior to joining NIKE, Mr. van Alebeek worked for McKinsey & Company as a management consultant and at N.V. Indiviers in business development.

Item 1A. Risk Factors

Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historical information, including estimates, projections, statements relating to NIKE's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, made or incorporated by reference from time to time by NIKE or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, 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 Securities and Exchange Commission, including Forms 8-K, 10-Q, and 10-K, and include, among others, the following: international, national and local general economic and market conditions; the size and

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growth of the overall athletic footwear, apparel, and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic footwear, apparel, and equipment for consumers and endorsers; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products, and sports; seasonal and geographic demand for NIKE products; difficulties in anticipating or forecasting changes in consumer preferences, consumer demand for NIKE products, and the various market factors described above; difficulties in implementing, operating, and maintaining NIKE's increasingly complex information systems and controls, including, without limitation, the systems related to demand and supply planning, and inventory control; interruptions in data and communications systems; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance futures orders may not be indicative of future revenues due to changes in shipment timing, and the changing mix of futures and at-once orders and order cancellations; 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 and energy used to manufacture products, new product development and introduction; the ability to secure and protect trademarks, patents, and other intellectual property; performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors and licensees; business disruptions; increased costs of freight and transportation to meet delivery deadlines; increases in borrowing costs due to any decline in our debt ratings; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas, political and economic instability, and terrorism; changes in government regulations; the impact of, including business and legal developments relating to, climate change; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

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

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

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 keenly competitive in the United States and on a worldwide basis. We compete internationally with a significant number of athletic and leisure shoe companies, athletic and leisure apparel companies, sports equipment companies, and large companies having diversified lines of athletic and leisure shoes, apparel, and equipment. We also compete with other companies for the production capacity of independent manufacturers that produce our products and for import quota capacity.

Our competitors' product offerings, technologies, marketing expenditures (including expenditures for advertising and endorsements), pricing, costs of production, and customer service are areas of intense competition. This, in addition to rapid changes in technology and consumer preferences in the markets for

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athletic and leisure footwear and apparel, and athletic equipment, constitute significant risk factors in our 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.

If we are unable to anticipate consumer preferences and develop new products, we may not be able to maintain or increase our net 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. 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 or other sports apparel 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 aggressive marketing, we could experience lower sales, excess inventories and lower profit margins, any of which could have an adverse effect on our results of operations and financial condition.

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

Although design and aesthetics of our products appear to be the most important factor for consumer acceptance of our products, technical innovation and quality control in the design of footwear, apparel, and athletic equipment is also essential to the commercial success of our products. Research and development plays a key role in technical innovation. We rely upon specialists in the fields of biomechanics, exercise physiology, engineering, industrial design 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 reduce injury, enhance athletic performance 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 high quality endorsers of our products could harm our business.

We establish relationships with professional athletes, sports teams and leagues to evaluate, promote, and establish product authenticity with consumers. 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 associated with our products that harm the reputations of those athletes, teams or leagues could also 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 to use and endorse our products, or a failure to enter into cost effective endorsement arrangements with prominent athletes and sports organizations could adversely affect our brand and result in decreased sales of our products.

Failure of our contractors or our licensees contractors to comply with our code of conduct, local laws, and other standards could harm our business.

We contract with hundreds of contractors outside of the United States to manufacture our products, and we also have license agreements that permit unaffiliated parties to manufacture or contract to manufacture products using our trademarks. We impose, and require our licensees to impose, on those contractors a code of conduct and other environmental, health, and safety standards for the benefit of workers. However, from time to time contractors may not comply with such standards or applicable local law or our licensees may not require their contractors to comply with such standards or applicable local law. Significant or continuing noncompliance with such standards and laws by one or more contractors could harm our reputation and, as a result, could have an adverse effect on our sales and financial condition.

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Global capital and credit market conditions, and resulting declines in consumer confidence and spending, could have a material adverse effect on our business, operating results, and financial condition.

Continuing volatility and disruption in the global capital and credit markets have led to a tightening of business credit and liquidity, a contraction of consumer credit, business failures, higher unemployment, and declines in consumer confidence and spending in the United States and internationally. If global economic and financial market conditions deteriorate or remain weak for an extended period of time, the following factors could have a material adverse effect on our business, operating results, and financial condition:

Slower consumer spending may result in reduced demand for our products, reduced orders from retailers for our products, order cancellations, lower revenues, increased inventories, and lower gross margins.

We may be unable to find suitable investments that are safe, liquid, and provide a reasonable return. This could result in lower interest income or longer investment horizons. Disruptions to capital markets or the banking system may also impair the value of investments or bank deposits we currently consider safe or liquid.

We may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so.

The failure of financial institution counterparties to honor their obligations to us under credit and derivative instruments could jeopardize our ability to rely on and benefit from those instruments. Our ability to replace those instruments on the same or similar terms may be limited under poor market conditions.

We conduct transactions in various currencies, which increase our exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies could have a significant impact on our reported financial results and condition.

Continued volatility in the markets and prices for commodities and raw materials we use in our products and in our supply chain (such as petroleum) could have a material adverse effect on our costs, gross margins, and profitability.

If retailers of our products experience declining revenues, or retailers experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, inability of retailers to timely meet their payment obligations to us, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts, and increased bad debt expense.

If retailers of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could reduce the availability of our products to consumers.

If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance general working capital needs, it may result in delays or non-delivery of shipments of our products.

Our business is affected by seasonality, which could result in fluctuations in our operating results and stock price.

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 fiscal quarters. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand for particular types of footwear, apparel and equipment. In addition, our customers may

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cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to

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fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including general economic conditions, changes in consumer preferences, weather conditions, availability of import quotas and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of factors that are beyond our control, including shifts in product sales mix, geographic sales trends, and currency exchange rate fluctuations, all of which we expect to continue. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

Futures orders may not be an accurate indication of our future revenues.

We make substantial use of our futures ordering program, which allows retailers to order five to six months in advance of delivery with the commitment that their orders will be delivered within a set period of time at a fixed price. Our futures ordering program allows us to minimize the amount of products we hold in inventory, purchasing costs, the time necessary to fill customer orders, and the risk of non-delivery. We report changes in futures orders in our periodic financial reports. Although we believe futures orders are an important indicator of our future revenues, reported futures orders are not necessarily indicative of our expectation of changes in revenues for any future period. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, foreign currency exchange rate fluctuations, order cancellations, returns, and discounts can cause differences in the comparisons between futures orders and actual revenues. Moreover, a significant portion of our revenue is not derived from futures orders, including at-once close-out sales of NIKE footwear and apparel, wholesale sales of equipment, Cole Haan, Converse, Hurley, NIKE Golf and Umbro, and retail sales across all brands.

Our futures ordering program does not prevent excess inventories or inventory shortages, which could result in decreased operating margins and harm to our business.

We purchase products from manufacturers outside of our futures ordering program and in advance of customer orders, which we hold in inventory and resell to customers. There is a risk we may be unable to sell excess products ordered from manufacturers. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have an adverse effect on our operating results and financial condition. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply products we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

The difficulty in forecasting demand also makes it difficult to estimate our future results of operations and financial condition from period to period. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income, and we are unlikely to forecast such effects with any certainty in advance.

We may be adversely affected by the financial health of our retailers.

We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers the ability to place orders five to six months ahead of delivery under our futures ordering program. These advance orders may be cancelled, and the risk of cancellation may increase when dealing with financially ailing retailers or retailers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties, which have had an adverse effect on our business. As a result, retailers may be more cautious than usual with orders as a result of weakness in the retail economy. A slowing economy in our key markets could have an adverse effect on the financial health of our customers, which in turn could have an adverse effect on our results of operations and financial condition. In addition, product sales are dependent in part on high quality merchandising and an appealing store environment to attract consumers, which requires continuing investments by retailers. Retailers who experience financial difficulties may fail to make such investments or delay them, resulting in lower sales and orders for our products.

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Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk, and impair our ability to sell our products.

The athletic footwear, apparel, and equipment retail markets in some countries are dominated by a few large athletic footwear, apparel, and equipment retailers with many stores. These retailers have in the past increased their market share and may continue to do so in the future by expanding through acquisitions and construction of additional stores. These situations concentrate our credit risk with a relatively small number of retailers, and, if any of these retailers were to experience a shortage of liquidity, it would increase the risk that their outstanding payables to us may not be paid. In addition, increasing market share concentration among one or a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our products, we may be unable to find a sufficient number of other retail outlets for our products to sustain the same level of sales and revenues.

Failure to adequately protect our intellectual property rights could adversely affect our business.

We utilize trademarks on nearly all of our products and believe that having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying us, and in distinguishing our goods from the goods of others. We consider our NIKE® and Swoosh Design® trademarks to be among our most valuable assets and we have registered these trademarks in over 150 countries. In addition, we own many other trademarks that we utilize in marketing our products. We believe that our trademarks, patents, and other intellectual property rights are important to our brand, our success, and our competitive position. We periodically discover products that are counterfeit reproductions of our products or that otherwise infringe on our intellectual property rights. If we are unsuccessful in challenging a party's products on the basis of trademark or design or utility patent infringement, continued sales of these products could adversely affect our sales and our brand and result in the shift of consumer preference away from our products. The actions we take to establish and protect trademarks, patents, and other intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights.

In addition, the laws of certain foreign countries may not protect intellectual property rights to the same extent as the laws of the United States. We may face significant expenses and liability in connection with the protection of our intellectual property rights outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

We are subject to periodic litigation and other regulatory proceedings, which could result in unexpected expense of time and resources.

From time to time we are called upon to defend ourselves against lawsuits and regulatory actions relating to our business. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have an adverse impact on our business, financial condition and results of operations. In addition, any significant litigation in the future, regardless of its merits, could divert management's attention from our operations and result in substantial legal fees.

Our international operations involve inherent risks which could result in harm to our business.

Virtually all of our athletic footwear and apparel is manufactured outside of the United States, and the majority of our products are sold outside of the United States. Accordingly, we are subject to the risks generally associated with global trade and doing business abroad, which include foreign laws and regulations, varying consumer preferences across geographic regions, political unrest, disruptions or delays in cross-border shipments, and changes in economic conditions in countries in which we manufacture or sell products. In

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addition, disease outbreaks, terrorist acts and military conflict have increased the risks of doing business abroad. These factors, among others, could affect our ability to manufacture products or procure materials, our ability to import products, our ability to sell products in international markets, and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be adversely affected. In addition, many of our imported products are subject to duties, tariffs, or quotas that affect the cost and quantity of various types of goods imported into the United States and other countries. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, safeguard measures, anti-dumping duties, cargo restrictions to prevent terrorism, restrictions on the transfer of currency, climate change legislation or other charges or restrictions, any of which could have an adverse effect on our results of operations and financial condition.

Changes in tax laws and unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective income tax rate in the future could be adversely affected by a number of factors, including: changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, the outcome of income tax audits in various jurisdictions around the world, and any repatriation of non-US earnings for which we have not previously provided for U.S. taxes. We regularly assess all of these matters to determine the adequacy of our provi