

# NIKE INC

## FORM 10-Q (Quarterly Report)

Filed 04/07/06 for the Period Ending 04/07/06

Address	ONE BOWERMAN DR BEAVERTON, OR 97005-6453
Telephone	5036713173
CIK	0000320187
Symbol	NKE
SIC Code	3021 - Rubber and Plastics Footwear
Industry	Footwear
Sector	Consumer Cyclical
Fiscal Year	05/31

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the Quarter Ended February 28, 2006  
*Commission file number - 1-10635*

### NIKE, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Yes X No .

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

Large accelerated filer X Accelerated filer Non-accelerated filer

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

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Common Stock shares outstanding as of February 28, 2006 were:

Class A	63,906,694
Class B	194,710,833

## PART 1 - FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

NIKE, Inc.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	February 28, 2006	May 31, 2005
	-----	-----
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$1,472.1	\$1,388.1
Short-term investments	535.0	436.6
Accounts receivable, net	2,351.6	2,262.1
Inventories (Note 2)	2,034.2	1,811.1
Deferred income taxes	115.0	110.2
Prepaid expenses and other current assets	536.8	343.0
	-----	-----
Total current assets	7,044.7	6,351.1
Property, plant and equipment	3,283.2	3,179.2
Less accumulated depreciation	1,684.8	1,573.4
	-----	-----
Property, plant and equipment, net	1,598.4	1,605.8
Identifiable intangible assets, net (Note 3)	406.2	406.1
Goodwill (Note 3)	135.3	135.4
Deferred income taxes and other assets	333.6	295.2
	-----	-----
Total assets	\$9,518.2	\$8,793.6
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 254.7	\$ 6.2
Notes payable	79.3	69.8
Accounts payable	785.8	775.0
Accrued liabilities (Note 4)	1,128.9	1,053.2
Income taxes payable	55.5	95.0
	-----	-----
Total current liabilities	2,304.2	1,999.2
Long-term debt	411.3	687.3
Deferred income taxes and other liabilities	540.8	462.6
Commitments and contingencies (Note 9)	--	--
Redeemable preferred stock	0.3	0.3
Shareholders' equity:		
Common stock at stated value:		
Class A convertible-63.9 and 71.9 shares outstanding	0.1	0.1
Class B-194.7 and 189.2 shares outstanding	2.7	2.7
Capital in excess of stated value	1,417.4	1,182.9
Unearned stock compensation	(5.1)	(11.4)
Accumulated other comprehensive income (Note 5)	127.7	73.4
Retained earnings	4,718.8	4,396.5
	-----	-----
Total shareholders' equity	6,261.6	5,644.2
	-----	-----
Total liabilities and shareholders' equity	\$9,518.2	\$8,793.6
	=====	=====

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

**NIKE, Inc.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2006	2005	2006	2005
(in millions, except per share data)				
Revenues	\$3,612.8	\$3,308.2	\$10,949.5	\$10,018.3
Cost of sales	2,038.7	1,849.4	6,115.9	5,585.6
Gross margin	1,574.1	1,458.8	4,833.6	4,432.7
Selling and administrative expense	1,086.6	1,035.7	3,245.7	3,082.5
Interest (income) expense, net	(8.4)	(0.1)	(20.5)	8.4
Other (income) expense, net	(10.7)	9.8	(22.0)	19.9
Income before income taxes	506.6	413.4	1,630.4	1,321.9
Income taxes	180.8	140.0	571.2	459.8
Net income	\$ 325.8	\$ 273.4	\$1,059.2	\$ 862.1
Basic earnings per common share (Note 7)	\$ 1.26	\$ 1.04	\$ 4.08	\$ 3.28
Diluted earnings per common share (Note 7)	\$ 1.24	\$ 1.01	\$ 4.00	\$ 3.18
Dividends declared per common share	\$ 0.31	\$ 0.25	\$ 0.87	\$ 0.70

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

**NIKE, Inc.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended February 28,	
	2006	2005
(in millions)		
Cash provided (used) by operations:		
Net income	\$1,059.2	\$ 862.1
Income/charges not affecting cash:		
Depreciation	206.4	188.9
Deferred income taxes	4.6	(4.1)
Amortization and other	27.3	30.5
Income tax benefit from exercise of stock options	49.2	60.3
Changes in certain working capital components, net of the effect of acquisition of subsidiary:		
Increase in accounts receivable	(95.5)	(97.5)
(Increase) decrease in inventories	(198.0)	2.8
(Increase) decrease in prepaid expenses and other current assets	( 135.6)	39.1
Increase (decrease) in accounts payable, accrued liabilities and income taxes payable	35.5	(1.0)

Cash provided by operations	953.1	1,081.1
Cash provided (used) by investing activities:		
Purchases of investments	(1,379.8)	(1,103.9)
Maturities of investments	1,279.0	1,086.0
Additions to property, plant and equipment	(232.1)	(180.5)
Disposals of property, plant and equipment	1.2	6.3
Increase in other assets	(20.8)	(18.7)
Decrease in other liabilities	(3.4)	(5.0)
Acquisition of subsidiary, net of cash acquired	--	(47.2)
Cash used by investing activities	(355.9)	(263.0)
Cash provided (used) by financing activities:		
Reductions in long-term debt, including current portion	(4.6)	(7.5)
Increase (decrease) in notes payable	16.8	(59.9)
Proceeds from exercise of options and other stock issuances	188.6	204.7
Repurchase of common stock	(511.0)	(390.5)
Dividends on common stock	(210.8)	(171.2)
Cash used by financing activities	(521.0)	(424.4)
Effect of exchange rate changes on cash	7.8	0.8
Net increase in cash and equivalents	84.0	394.5
Cash and equivalents, beginning of period	1,388.1	828.0
Cash and equivalents, end of period	\$1,472.1	\$1,222.5
	=====	=====

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

## NIKE, Inc.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - Summary of Significant Accounting Policies:

##### Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The interim financial statement information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the nine-month period ended February 28, 2006 are not necessarily indicative of results to be expected for the entire year.

Certain prior year amounts have been reclassified to conform to fiscal year 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

#### NOTE 2 - Inventories:

Inventory balances of \$2,034.2 million and \$1,811.1 million at February 28, 2006 and May 31, 2005, respectively, were substantially all finished goods.

#### NOTE 3 - Identifiable Intangible Assets and Goodwill:

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of February 28, 2006 and May 31, 2005:

February 28, 2006

May 31, 2005

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(in millions)						
Amortized intangible assets:						
Patents	\$ 33.1	\$ (9.8)	\$ 23.3	\$ 29.2	\$ (10.9)	\$ 18.3
Trademarks	45.6	(10.4)	35.2	54.8	(16.4)	38.4
Other	21.4	(15.2)	6.2	21.4	(13.5)	7.9
Total	<u>\$ 100.1</u>	<u>\$ (35.4)</u>	<u>\$ 64.7</u>	<u>\$ 105.4</u>	<u>\$ (40.8)</u>	<u>\$ 64.6</u>
	=====	=====		=====	=====	
Unamortized intangible assets - Trademarks			\$ 341.5			\$ 341.5
Identifiable intangible assets, net			<u>\$ 406.2</u>			<u>\$ 406.1</u>
			=====			=====
Goodwill			<u>\$ 135.3</u>			<u>\$ 135.4</u>
			=====			=====

Amortization expense, which is included in selling and administrative expense, was \$2.4 million and \$2.7 million for the three-month periods ended February 28, 2006 and 2005, respectively and \$7.3 million and \$7.0 million for the nine-month periods ending February 28, 2006 and 2005, respectively. The estimated amortization expense for intangible assets subject to amortization for each of the succeeding years ending May 31, 2006 through May 31, 2010 are as follows: 2006: \$9.7 million; 2007: \$8.9 million; 2008: \$8.4 million; 2009: \$7.1 million; 2010: \$6.3 million.

#### NOTE 4 - Accrued Liabilities:

Accrued liabilities include the following:

	February 28, 2006	May 31, 2005
(in millions)		
Compensation and benefits, excluding taxes	\$374.4	\$397.2
Advertising and marketing	125.2	76.6
Taxes other than income taxes	114.4	96.8
Endorser compensation	107.6	101.9
Dividends payable	80.5	65.3
Fair value of derivatives	68.7	61.8
Other <sup>1</sup>	258.1	253.6
	<u>\$1,128.9</u>	<u>\$1,053.2</u>
	=====	=====

<sup>1</sup> Other consists of various accrued expenses and no individual item accounted for more than \$50 million of the balance at February 28, 2006 and May 31, 2005.

#### NOTE 5 - Comprehensive Income:

Comprehensive income, net of taxes, is as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2006	2005	2006	2005
(in millions)				
Net income	\$325.8	\$273.4	\$1,059.2	\$862.1
Other comprehensive income:				
Change in cumulative translation adjustment and other	22.6	(6.1)	(20.7)	110.5
Changes due to cash flow hedging instruments:				
Net gain (loss) on hedge derivatives	(4.3)	(3.4)	93.1	(112.0)
Reclassification to net income of				

previously deferred (gains) and losses related to hedge derivative instruments (17.4)	30.7	(18.1)	106.4
Other comprehensive income	0.9	21.2	54.3
Total comprehensive income	\$326.7	\$294.6	\$1,113.5
	=====	=====	=====

#### NOTE 6 - Stock-Based Compensation:

The Company uses the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" as permitted by Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation" (FAS 123). Substantially all options granted by the Company have an exercise price equal to the market value at the date of grant, and accordingly, no compensation expense is recognized. The Company also has an Employee Stock Purchase Plan (ESPP) that qualifies as a non-compensatory employee stock purchase plan under Section 423 of the Internal Revenue Code, and accordingly, no compensation expense is recognized.

If the Company had accounted for stock options and ESPP purchase rights issued to employees in accordance with FAS 123, the Company's pro forma net income and pro forma earnings per share would have been reported as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2006	2005	2006	2005
	(in millions, except per share data)			
Net income as reported	\$325.8	\$273.4	\$1,059.2	\$862.1
Add: Stock-based compensation expense included in reported net income, net of tax	0.1	0.2	0.2	0.5
Deduct: Total stock-based employee compensation expense under fair value based method for all awards, net of tax	(20.6)	(16.4)	(59.1)	(47.8)
Pro forma net income	\$305.3	\$257.2	\$1,000.3	\$814.8
	=====	=====	=====	=====
Earnings per share:				
Basic - as reported	\$ 1.26	\$ 1.04	\$ 4.08	\$ 3.28
Basic - pro forma	1.18	0.98	3.85	3.10
Diluted - as reported	1.24	1.01	4.00	3.18
Diluted - pro forma	1.17	0.96	3.80	3.04

The pro forma effects of applying FAS 123 may not be representative of the effects on reported net income and earnings per share for future periods as options vest over several years and additional awards are made each year.

As disclosed in the Company's Annual Report on Form 10-K as of May 31, 2005, the Company is currently evaluating SFAS No. 123R "Share-Based Payment" (FAS 123R) and the Securities and Exchange Commission's Staff Accounting Bulletin No. 107 (SAB 107) to determine the fair value method to measure compensation expense, the appropriate assumptions to include in the fair value model and the transition method to use upon adoption. As a result of the adoption of this Statement the Company will recognize additional compensation expense beginning with the year ending May 31, 2007. The amount of expense that will be recognized is largely dependent on several variables, most notably the number of options that will be granted during the fiscal year in addition to the various assumptions used in the valuation model. The effect on the Company's results of operations of expensing stock options for the three-month and nine-month periods ending February 28, 2006 and 2005 using the Black-Scholes model is presented in the table above.

Under certain conditions, stock options granted by the Company are eligible for accelerated vesting upon the retirement of the employee. The FASB clarified in FAS 123R that the fair value of such stock options should be expensed based on an accelerated vesting schedule or immediately, rather than ratably over the vesting period stated in the grant. The Company's pro forma disclosure above currently reflects the expense of such options ratably over the stated vesting period, expensing all unvested shares upon actual retirement. The SEC clarified that companies should continue to follow the vesting method they have been using until adoption of FAS 123R, then apply the accelerated vesting schedule to all subsequent grants to those employees eligible for accelerated vesting upon retirement. Had the Company been accounting for such stock options using the accelerated vesting schedule for those employees eligible for accelerated vesting upon retirement, the Company would have recognized less stock-based compensation expense in the above pro forma of \$0.02 and \$0.01 per diluted share for each of the three-month periods ended February 28, 2006 and February 28, 2005, respectively, and additional stock-based compensation expense in the above pro forma of \$0.02 and \$0.07 per diluted share for the nine-month periods ended February 28, 2006 and February 28, 2005, respectively. The Company grants the majority of stock options in a single grant in the first three months of each fiscal year. As a result, accelerated vesting would result in increased expense recognition in the first three months of the fiscal year and a reduction of expense recorded in the remaining

nine months of the fiscal year, as compared to the expense recorded by the Company under our current policy of expensing such options ratably over the stated vesting period.

#### NOTE 7 - Earnings Per Common Share:

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase 5.6 million and 0.2 million shares of common stock were outstanding at February 28, 2006 and February 28, 2005, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares and, therefore, the effect would be antidilutive.

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2006	2005	2006	2005
	(in millions, except per share data)			
Determination of shares:				
Average common shares outstanding	258.9	263.3	259.6	263.1
Assumed conversion of dilutive stock options and awards	4.5	8.4	5.0	7.8
	<u>263.4</u>	<u>271.7</u>	<u>264.6</u>	<u>270.9</u>
Diluted average common shares outstanding	263.4	271.7	264.6	270.9
	=====	=====	=====	=====
Basic earnings per common share	\$ 1.26	\$ 1.04	\$ 4.08	\$ 3.28
	=====	=====	=====	=====
Diluted earnings per common share	\$ 1.24	\$ 1.01	\$ 4.00	\$ 3.18
	=====	=====	=====	=====

#### NOTE 8 - Operating Segments:

The Company's operating segments are evidence of the structure of the Company's internal organization. The major segments are defined by geographic regions for operations participating in NIKE brand sales activity excluding NIKE Golf and NIKE Bauer Hockey. Each NIKE brand geographic segment operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment. The "Other" category shown below represents activities of Cole Haan Holdings Incorporated, NIKE Bauer Hockey Inc., Hurley International LLC, NIKE Golf, Converse Inc., and Exeter Brands Group LLC (beginning August 11, 2004), which are considered immaterial for individual disclosure based on the aggregation criteria in SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information".

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

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

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

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2006	2005	2006	2005
Net Revenue				
U.S.	\$1,442.8	\$1,268.2	\$ 4,258.8	\$ 3,801.9
EUROPE, MIDDLE EAST, AFRICA	980.1	1,033.9	3,175.0	3,152.9
ASIA PACIFIC	532.3	472.8	1,495.2	1,362.3
AMERICAS	203.1	143.7	668.9	494.7
OTHER	454.5	389.6	1,351.6	1,206.5

	\$3,612.8	\$3,308.2	\$10,949.5	\$10,018.3
	=====	=====	=====	=====
Pre-tax Income				
U.S.	\$ 286.2	\$ 260.1	\$ 897.1	\$ 815.5
EUROPE, MIDDLE EAST, AFRICA	208.7	219.3	733.1	663.3
ASIA PACIFIC	119.6	100.4	326.2	275.8
AMERICAS	38.5	22.8	140.5	87.5
OTHER	43.6	23.0	106.6	84.0
CORPORATE	(190.0)	(212.2)	(573.1)	(604.2)
	\$ 506.6	\$ 413.4	\$ 1,630.4	\$ 1,321.9
	=====	=====	=====	=====

Feb. 28,	May 31,
2006	2005

(in millions)

Accounts receivable, net		
U.S.	\$ 784.1	\$ 627.0
EUROPE, MIDDLE EAST, AFRICA	699.7	723.6
ASIA PACIFIC	294.3	309.8
AMERICAS	182.8	168.7
OTHER	339.5	394.0
CORPORATE	51.2	39.0
	\$2,351.6	\$2,262.1
	=====	=====
Inventories		
U.S.	\$ 686.3	\$ 639.9
EUROPE, MIDDLE EAST, AFRICA	540.8	496.5
ASIA PACIFIC	263.5	228.9
AMERICAS	142.1	96.8
OTHER	357.5	316.2
CORPORATE	44.0	32.8
	\$2,034.2	\$1,811.1
	=====	=====
Property, plant and equipment, net		
U.S.	\$ 211.5	\$ 216.0
EUROPE, MIDDLE EAST, AFRICA	230.1	230.0
ASIA PACIFIC	347.2	380.4
AMERICAS	16.4	15.7
OTHER	96.1	93.4
CORPORATE	697.1	670.3
	\$1,598.4	\$1,605.8
	=====	=====

## NOTE 9 - Commitments and Contingencies:

At February 28, 2006, the Company had letters of credit outstanding totaling \$381.8 million. These letters of credit were issued primarily for the purchase of inventory.

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

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

### Overview

In the third quarter of fiscal 2006, our revenues grew 9% to \$3.6 billion, net income grew 19% to \$325.8 million and we delivered diluted earnings per share of \$1.24, a 23% increase versus the third quarter of fiscal 2005. Strong demand for NIKE brand products in the U.S. Region drove over half of the increase in revenues. The growth in net income was primarily driven by the higher revenues and by lower selling and administrative expense as a percentage of sales. Selling and administrative expense for the third quarter decreased as a percentage of sales by 120 basis points. For the quarter, our gross margin percentage decreased 50 basis points to 43.6%, driven largely by lower in-line net pricing margins (net revenue for current product offerings minus product costs) for footwear. Diluted earnings per share in the third quarter increased at a greater rate than net income primarily as a result of our common share repurchases since the third quarter of fiscal 2005.

## Results of Operations

	Three Months Ended February 28,			Nine Months Ended February 28,		
	2006	2005	change	2006	2005	change
	(in millions, except per share data)					
Revenues	\$3,612.8	\$3,308.2	9%	\$10,949.5	\$10,018.3	9%
Cost of sales	2,038.7	1,849.4	10%	6,115.9	5,585.6	9%
Gross margin	1,574.1	1,458.8	8%	4,833.6	4,432.7	9%
Gross margin %	43.6%	44.1%		44.1%	44.2%	
Demand creation expense	428.3	371.6	15%	1,226.9	1,188.8	3%
Operating overhead expense	658.3	664.1	-1%	2,018.8	1,893.7	7%
Selling and administrative expense	1,086.6	1,035.7	5%	3,245.7	3,082.5	5%
% of revenue	30.1%	31.3%		29.6%	30.8%	
Income before income taxes	506.6	413.4	23%	1,630.4	1,321.9	23%
Net income	325.8	273.4	19%	1,059.2	862.1	23%
Diluted earnings per share	1.24	1.01	23%	4.00	3.18	26%

## Consolidated Operating Results

In both the third quarter and first nine months of fiscal 2006, consolidated revenues grew 9% versus the comparable periods of fiscal 2005. Changes in currency exchange rates reduced the reported revenue growth by three percentage points for the quarter and did not have a material impact on the reported revenue growth for the first nine months of fiscal 2006. The U.S. Region contributed 5 percentage points of the consolidated revenue growth for both the third quarter and first nine months of fiscal 2006. Excluding the impact of changes in foreign currency, revenue growth in our international regions contributed 5 percentage points of the consolidated revenue growth for the third quarter and 3 percentage points of the consolidated revenue growth for the first nine months, as all three of our international regions posted higher revenues. Sales in our Other businesses drove the balance of the consolidated revenue growth for the quarter and year-to-date period.

Our consolidated gross margin percentage declined 50 basis points and 10 basis points for the third quarter and first nine months of fiscal 2006, respectively, versus the comparable prior year periods. The primary factors contributing to these changes in the gross margin percentage for the third quarter and year-to-date period were lower in-line net pricing margins in the U.S., EMEA (Europe, Middle East and Africa) and Asia Pacific regions partially offset by improvements in year-over-year foreign currency hedge rates, as discussed below:

- (1) A lower gross margin percentage in the U.S. Region, primarily due to lower in-line net pricing margins for footwear, reduced the consolidated gross margin percentage by approximately 20 and 40 basis points for the third quarter and first nine months of fiscal 2006, respectively.
- (2) Our international regions reduced the consolidated gross margin percentage by approximately 30 basis points for the third quarter of fiscal 2006 and increased the consolidated gross margin by approximately 10 basis points for the year-to-date period due to the following factors:
  - (a) Lower in-line net pricing margins for footwear and apparel sales in the EMEA and Asia Pacific regions decreased the consolidated gross margin by approximately 50 basis points and 120 basis points for the third quarter and year-to-date period, respectively.
  - (b) For the third quarter and year-to-date period, year-over-year currency hedge rate improvements, primarily the euro, contributed approximately 20 basis points and 140 basis points of consolidated gross margin improvement, respectively.
- (3) Improved gross margin percentages in our Other businesses increased the consolidated gross margin percentage by approximately 20 basis points for both the quarter and year-to-date period. NIKE Golf and Converse drove the majority of the gross margin improvement for both the quarter and year-to-date period.

We expect continued pressure on gross margins in the fourth quarter of fiscal year 2006 as compared to the fourth quarter of fiscal 2005 due to the factors discussed above. Hedge rates for the fourth quarter are expected to be slightly better than the fourth quarter of fiscal 2005, and the year-over-year improvement will be comparable with the level reported for the third quarter of fiscal 2006.

Selling and administrative expense, comprised of demand creation (advertising and promotion) and operating overhead, grew 5% for both the

third quarter and first nine months of fiscal 2006. Changes in currency exchange rates reduced the selling and administrative expense growth by three percentage points for the quarter and one percentage point for the year-to-date period.

Selling and administrative expenses decreased as a percentage of sales by 120 basis points and 110 basis points for the third quarter and year-to-date period, respectively.

Demand creation expense increased 15% in the third quarter and 3% for the first nine months of fiscal 2006. Changes in currency exchange rates reduced the rate of growth in demand creation by 4 percentage points for the third quarter and 1 percentage point for the first nine months of fiscal 2006. Excluding the impact of changes in currency exchange rates, the increase in demand creation spending for the third quarter was primarily due to increased advertising spending, primarily for the global Air Max 360 footwear launch and the global Winter Olympics and World Cup campaigns, and increased spending on sports marketing endorsement contracts and events. Excluding the impact of changes in currency exchange rates, the increase in demand creation spending for the first nine months of fiscal 2006 was primarily due to increased spending on sports marketing endorsement contracts and events and incremental investments in retail marketing programs, partially offset by lower advertising spending as compared to the prior year, which is the result of a change in the timing of advertising spending to the second half of fiscal 2006.

The level of demand creation spending for the first nine months of fiscal 2006 was not indicative of what we currently expect for the full year. Spending is expected to increase in the fourth quarter of fiscal 2006, compared to both the fourth quarter of fiscal 2005 and the third quarter of fiscal 2006, as a result of investments in advertising and marketing programs, most notably those relating to the 2006 World Cup campaign. During fiscal 2005, advertising spending was particularly heavy in the first quarter due to marketing programs centered on global sporting events that took place in the summer of 2004.

Operating overhead for the third quarter of fiscal 2006 decreased 1% and grew 7% for the first nine months of fiscal 2006.

Excluding changes in currency exchange rates, operating overhead expense increased 1% in the third quarter of fiscal 2006, a much lower rate of growth than revenue. Excluding the effects of currency, the change in operating overhead in the third quarter of fiscal 2006 reflected the following:

- Increased spending to support the growth of NIKE-owned retail, primarily related to new stores.
- Increased spending to support the growth of our Other businesses.
- Severance costs associated with the resignation of our former Chief Executive Officer during the third quarter.
- Lower travel and meeting expenses.
- Personnel costs were flat compared to the third quarter of fiscal 2005, excluding NIKE-owned retail and our Other businesses.

Changes in foreign currency exchange rates did not have a material impact on the operating overhead growth for the first nine months of fiscal 2006. The operating overhead increase for the first nine months of fiscal 2006 was mainly attributable to:

- Higher personnel costs, due primarily to increased headcount and higher wages and benefits.
- Increased spending to support the growth of our Other businesses.
- Increased spending to support the growth of NIKE-owned retail, primarily related to new stores.

In the third quarter and first nine months of fiscal 2006, foreign currency hedge gains were the most significant component of Other income, net, of \$10.7 million and \$22.0 million, respectively. These hedge gains are reflected in the Corporate line in our segment presentation of pre-tax income in the Notes to Unaudited Condensed Consolidated Financial Statements (Note 8 - Operating Segments). In the third quarter of fiscal 2006, we estimate that the combination of net foreign currency gains in Other (income) expense, net, and the unfavorable translation of foreign currency denominated profits, most significantly in EMEA, did not result in a material year-over-year increase to consolidated income before income taxes. For the first nine months of fiscal 2006 these factors resulted in a year-over-year increase in consolidated income before income taxes of approximately \$37 million.

In the third quarter of fiscal 2006, we adjusted our year-to-date effective tax rate to 35.0%, our estimate of our effective rate for full fiscal year 2006. The effective tax rate for fiscal 2006 is consistent with the 34.9% rate reported for the full year of fiscal 2005.

Worldwide futures and advance orders for our footwear and apparel scheduled for delivery from March through July 2006 were 2.9% higher than such orders reported for the comparable period of fiscal 2005. This futures growth rate is calculated based upon our forecasts of the actual exchange rates under which our revenues will be translated during this period, which approximate current spot rates. This increase was reduced by 2.5 percentage points due to changes in currency exchange rates versus the same period last year. Excluding this currency impact, higher average selling prices for apparel contributed approximately 1 percentage point of the growth in overall futures and advance orders. The remaining 4 percentage points of the increase were due to volume increases for both footwear and apparel. The reported futures and advance orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations and discounts can cause differences in the comparisons between futures and advance orders, and actual revenues. Moreover, a significant portion of our revenue is not derived from futures and advance orders, including at-once and closeout sales of NIKE footwear and apparel, wholesale sales of equipment, U.S. licensed team apparel, NIKE Bauer Hockey, Cole Haan, Converse, NIKE Golf, Hurley, Exeter Brands and retail sales across all brands.

## Operating Segments

The breakdown of revenues follows:

	Three Months Ended February 28,			Nine Months Ended February 28,		
	2006	2005	% change	2006	2005	% change
	(in millions)					
U.S. REGION						
FOOTWEAR	\$1,005.9	\$ 849.6	18%	\$ 2,838.5	\$ 2,451.0	16%
APPAREL	366.6	345.8	6%	1,195.9	1,121.8	7%
EQUIPMENT	70.3	72.8	-3%	224.4	229.1	-2%
TOTAL U.S.	1,442.8	1,268.2	14%	4,258.8	3,801.9	12%
EMEA REGION						
FOOTWEAR	563.8	615.3	-8%	1,782.1	1,810.4	-2%
APPAREL	347.1	351.3	-1%	1,161.9	1,131.0	3%
EQUIPMENT	69.2	67.3	3%	231.0	211.5	9%
TOTAL EMEA	980.1	1,033.9	-5%	3,175.0	3,152.9	1%
ASIA PACIFIC REGION						
FOOTWEAR	284.1	237.9	19%	766.9	693.1	11%
APPAREL	199.0	188.3	6%	590.1	544.9	8%
EQUIPMENT	49.2	46.6	6%	138.2	124.3	11%
TOTAL ASIA PACIFIC	532.3	472.8	13%	1,495.2	1,362.3	10%
AMERICAS REGION						
FOOTWEAR	143.7	99.6	44%	478.7	344.2	39%
APPAREL	44.4	33.5	33%	140.5	115.9	21%
EQUIPMENT	15.0	10.6	42%	49.7	34.6	44%
TOTAL AMERICAS	203.1	143.7	41%	668.9	494.7	35%
	3,158.3	2,918.6	8%	9,597.9	8,811.8	9%
OTHER	454.5	389.6	17%	1,351.6	1,206.5	12%
TOTAL REVENUES	\$3,612.8	\$3,308.2	9%	\$10,949.5	\$10,018.3	9%
	=====	=====		=====	=====	

The discussion following includes disclosure of "pre-tax income" for operating segments. We have reported pre-tax income for each of our operating segments in accordance with Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information." As discussed in Note 8 - Operating Segments in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements, certain corporate costs are not included in pre-tax income of our operating segments.

In the U.S. Region, a strong increase in unit sales accounted for 12 percentage points and 13 percentage points of the U.S. footwear revenue growth for the third quarter and first nine months of fiscal 2006, respectively. An increase in the average selling price per pair accounted for 6 and 3 percentage points of the footwear revenue growth for the third quarter and year-to-date period, respectively. The strong unit increase was driven by increased consumer demand across a majority of the footwear categories for both the third quarter and year-to-date period. The higher average selling price per pair for the third quarter and first nine months was primarily due to increased consumer demand for products with a suggested retail price over \$100. Increased consumer demand for our Jordan brand was a significant driver of the overall footwear revenue growth.

The increase in U.S. apparel sales for the third quarter and first nine months of fiscal 2006 was driven by increases in NIKE and Jordan branded apparel. For the year-to-date period, the NIKE and Jordan branded apparel increases were partially offset by sales declines as a result of the expiration of our license agreement with the NBA in the second quarter of fiscal 2005.

For the third quarter of fiscal 2006, U.S. Region pre-tax income was \$286.2 million, a 10% increase versus the third quarter of fiscal 2005. Pre-tax income for the first nine months of fiscal 2006 increased 10% to \$897.1 million. For the quarter, higher revenues drove the increase, more than offsetting a lower gross margin percentage and higher selling and administrative expenses as a percentage of revenue. For the year-to-date period, lower selling and administrative expense as a percentage of revenue also contributed to the pre-tax income improvement.

For the quarter and year-to-date period of fiscal 2006, the lower gross margin percentage in the U.S. Region was primarily the result of lower in-line net pricing margins for footwear due to higher product costs, primarily the result of higher oil prices. For the year-to-date period, additional costs incurred to meet strong footwear unit demand contributed to the margin decline. Higher selling and administrative costs were due to increases in both demand creation and operating overhead. The increase in demand creation for both the quarter and year-to-date period was primarily driven by increased advertising, primarily due to the global campaigns discussed above, and sports marketing investments. For the third quarter and year-to-date period, the increase in operating overhead was driven by increased spending to support the growth of our NIKE-owned retail stores, primarily related to new stores. Non-retail personnel costs were lower than the third quarter of fiscal 2005 but higher for the year-to-date period. For the year-to-date period, higher travel and meeting expenses contributed to the operating overhead increase.

For the EMEA Region, changes in currency exchange rates reduced revenue growth 9 percentage points and 2 percentage points for the third quarter and first nine months of fiscal 2006, respectively, primarily due to the strengthening of the U.S. dollar compared to the euro. Excluding changes in currency exchange rates, footwear revenues for the third quarter were comparable to fiscal 2005; for the year-to-date period footwear revenues were up slightly. These results reflected increased unit sales offset by declines in the average selling price per pair due in part to changes in the mix of in-line products sold and higher customer discounts. The increase in EMEA apparel revenue for the quarter and year-to-date period was driven by increased unit sales and average selling prices of NIKE branded apparel.

Excluding changes in currency exchange rates, EMEA sales increases in the emerging markets of our Central Europe, Middle East and Africa unit, drove the EMEA sales growth for the third quarter and first nine months of fiscal 2006.

EMEA pre-tax income for the third quarter of fiscal 2006 was \$208.7 million, down 5% versus the prior year quarter. For the first nine months of fiscal 2006, pre-tax income grew 11% to \$733.1 million. A significant driver of the decline in reported pre-tax income for the third quarter versus the prior year was the change in currency exchange rates year-over-year. Excluding the effects of changes in currency exchange rates, higher revenues and lower selling and administrative costs drove pre-tax income growth for the third quarter partially offset by a lower gross margin percentage. For the nine-month period, higher revenues, a higher gross margin percentage and lower selling and administrative costs all contributed to reported pre-tax income growth, more than offsetting a negative impact from changes in currency exchange rates.

For the third quarter, the lower gross margin percentage was primarily the result of reduced in-line net pricing margins for footwear and apparel partially offset by slightly improved year-over-year euro hedge rates. The improved gross margin percentage during the nine-month period was primarily the result of improved year-over-year euro hedge rates, partially offset by reduced in-line net pricing margins in footwear and apparel. For both the quarter and year-to-date period, the reduced in-line net pricing margins for footwear were due to higher discounts; higher product costs, primarily the result of higher oil prices; and a shift in the mix of products sold toward products with lower margins. The reduced in-line net pricing margins for apparel were primarily due to higher product costs and higher discounts.

The following analysis excludes the impact of changes in foreign currency exchange rates. Lower selling and administrative costs in the third quarter were driven by decreases in operating overhead expenses partially offset by a slight increase in demand creation. Operating overhead expenses decreased in the third quarter due to slightly lower personnel costs and lower spending on travel and meeting expenses, partially offset by increased spending to support the growth of NIKE-owned retail, primarily related to new stores. Demand creation expense slightly increased in the third quarter primarily due to increased advertising and retail marketing programs versus the comparable period of the prior year. The increased advertising was the result of the global campaigns discussed above. For the nine-month period, selling and administrative expense was lower than the previous year, driven by reduced demand creation expense, partially offset by higher operating overhead expenses. The lower demand creation spending was driven by a shift in timing of campaigns to the second half of fiscal 2006 versus fiscal 2005, reflecting the timing of global sporting events as discussed above. Operating overhead increased in the first nine months of fiscal 2006 due to increases in personnel costs and increased spending to support the growth of NIKE-owned retail, primarily related to new stores, partially offset by lower spending on travel and meeting expenses.

In the Asia Pacific Region, changes in currency exchange rates reduced the reported revenue growth by 4 percentage points for the third quarter and did not have a material impact on the reported revenue growth for the first nine months of fiscal 2006. Excluding the changes in currency exchange rates, revenues for each Asia Pacific product business unit (footwear, apparel and equipment) were higher in both the third quarter and year-to-date period. Increased revenue from China (driven by expansion of retail distribution and strong consumer demand) was the primary growth driver for both the third quarter and year-to-date period. Excluding changes in currency exchange rates, increased sales in Japan and Korea also contributed to the revenue growth for the third quarter. For the year-to-date period, sales in Japan and Australia were lower than the prior year due to weak market conditions, investments in consumer value and higher customer discounts.

Third quarter pre-tax income for the Asia Pacific Region increased 19% versus the third quarter of fiscal 2005 to \$119.6 million; year-to-date pre-tax income increased 18% to \$326.2 million. For the quarter and year-to-date period, higher revenues and lower selling and administrative expenses as a percentage of revenues were partially offset by reduced gross margins.

The reduced gross margin percentage for both the quarter and year-to-date period was primarily attributable to lower in-line net pricing margins for footwear and apparel due to higher footwear product costs, primarily the result of higher oil prices; higher discounts; strategies to improve consumer value in Japan; and a shift in the mix of products sold toward products with lower margins in Japan. Selling and administrative expenses were a lower percentage of revenues in the third quarter, but higher in amount than the third quarter of fiscal 2005. The increased selling and administrative expenses for the quarter were due to higher demand creation spending associated with the global campaigns discussed above, partially offset by lower operating overhead expenses. The reduction in selling and administrative expenses for the first nine months of fiscal 2006 was due to lower demand creation spending, driven by a shift in timing of campaigns to the second half of fiscal 2006 versus fiscal 2005, reflecting the timing of global sporting events as discussed above, and lower operating overhead expense,

partially offset by increased spending to support growth in China.

In the Americas Region, 11 percentage points of the revenue growth for the third quarter and 12 percentage points of the revenue growth for the first nine months of fiscal 2006 were due to changes in currency exchange rates. Even excluding the changes in currency exchange rates, sales in each product business unit grew in both the third quarter and year-to-date period. The revenue growth for both the third quarter and first nine months was driven by increased sales in every country in the region, with significant sales increases in Brazil and Argentina.

In the third quarter of fiscal 2006, pre-tax income for the Americas Region increased 69% from the prior year quarter, to \$38.5 million. For the first nine months of fiscal 2006, pre-tax income increased 61% to \$140.5 million. The increase in pre-tax income for the third quarter and year-to-date period was attributable to higher revenues, improved gross margins, lower selling and administrative expenses as a percentage of revenues and favorable currency translation. Although selling and administrative expenses were a lower percentage of revenues in the third quarter and first nine months, selling and administrative expenses were higher than the comparable periods of fiscal 2005. The increased selling and administrative expenses were due to increases in both demand creation (due to increased sports marketing endorsement contracts and retail marketing programs) and operating overhead expenses (driven by increased personnel costs as a result of continued expansion of the business across the region).

Revenues and pre-tax income for our Other businesses are comprised substantially of results from NIKE Bauer Hockey, Inc., Cole Haan Holdings Incorporated, Converse Inc., Hurley International LLC, NIKE Golf, and Exeter Brands Group LLC. For the third quarter and year-to-date period, the increase in Other business revenues was primarily driven by growth at Converse, NIKE Golf and Cole Haan.

Pre-tax income from the Other businesses improved 90% to \$43.6 million in the third quarter of fiscal 2006 and improved 27% to \$106.6 million in the year-to-date period versus the same period of last year. For the third quarter and first nine months of fiscal 2006, major drivers of the increase were improved profitability from Converse and NIKE Golf, partially offset by higher losses at NIKE Bauer Hockey. The loss at NIKE Bauer Hockey is largely a result of costs incurred in connection with a re-branding initiative and advertising related to the Winter Olympics.

## **Liquidity and Capital Resources**

### **Cash Flow Activity**

Cash provided by operations was \$953.1 million for the first nine months of fiscal 2006, compared to \$1,081.1 million for the first nine months of fiscal 2005. Net income provided \$1,059.2 million of cash flow over the first nine months of the current year, compared to \$862.1 million in the first nine months of last year, partially offset by a larger increase in working capital in fiscal 2006 than in fiscal 2005. In the first nine months of fiscal 2006, our net investment in working capital increased \$393.6 million as compared to an increase of only \$56.6 million in the corresponding period of fiscal 2005. This increased investment in working capital was largely attributable to a larger increase in inventories and prepaid expenses and other current assets. The increase in inventories reflects our reported futures orders growth, higher in transit inventories due to earlier product ordering as compared to last year, and higher inventories to support the expansion of NIKE-owned retail stores. The increase in prepaid expenses and other current assets is primarily due to the timing of payments compared to the prior year, including earlier payments of income taxes.

In the current quarter, we purchased approximately 1.5 million shares of NIKE's Class B common stock for \$127.9 million, bringing purchases for the first nine months of fiscal 2006 to 6.2 million shares at a cost of \$518.3 million. The share repurchases were part of a \$1.5 billion, four-year share repurchase program that was approved by the Board of Directors in June 2004. Since the inception of this program, we have repurchased 13.1 million shares, at a total cost of \$1.1 billion. We expect to continue to fund this program from operating cash flow. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Dividends declared per share of common stock for the third quarter of fiscal 2006 were \$0.31, compared to \$0.25 in the third quarter of fiscal 2005.

### **Capital Resources**

No amounts are currently outstanding under our committed credit facility. The terms of our facility have not changed from those described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2005.

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

Liquidity is also provided by our commercial paper program, under which there was no amount outstanding at February 28, 2006 or May 31, 2005. We currently have short-term debt ratings of A1 and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

We currently believe that cash generated by operations, together with access to external sources of funds as described above and in our Annual Report on Form 10-K for the fiscal year ended May 31, 2005, will be sufficient to meet our operating and capital needs in the foreseeable future.

## **Critical Accounting Policies**

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

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

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

## **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes from the information previously reported under Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2005.

## **Item 4. CONTROLS AND PROCEDURES**

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

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of February 28, 2006.

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

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

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

property performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas and political and economic instability; changes in government regulations; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

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

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

## Part II - Other Information

### Item 1.

#### Legal Proceedings

There have been no significant developments with respect to the information previously reported under Item 4 of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2005.

### Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

The following table presents a summary of share repurchases made by NIKE during the quarter ended February 28, 2006 under the four-year \$1.5 billion share repurchase program authorized by our Board of Directors and announced in June 2004.

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(in millions)
December 1 - 31, 2005	568,200	\$ 87.36	568,200	\$ 503.8
January 1 - 31, 2006	319,300	\$ 84.51	319,300	\$ 476.8
February 1 - 28, 2006	606,500	\$ 84.66	606,500	\$ 425.5
Total	1,494,000 =====	\$ 85.66 =====	1,494,000 =====	

#### Item 3. Defaults Upon Senior Securities

None

#### Item 4. Submissions of Matters to a Vote of Security Holders

None

#### Item 5. Other Information

None

### Item 6. Exhibits

#### (a) EXHIBITS:

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

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

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

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

12.1 Computation of Ratio of Earnings to Fixed Charges.

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

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

32.1 Section 1350 Certificate of Chief Executive Officer.

32.2 Section 1350 Certificate of Chief Financial Officer.

## SIGNATURES

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

NIKE, Inc. an Oregon Corporation

*/s/ Donald W. Blair*

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*Donald W. Blair*  
*Chief Financial Officer*

*DATED: April 7, 2006*

**EXHIBIT 12.1****NIKE, INC.  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

	Nine Months Ended February 28,	
	2006	2005
	(in millions)	
Net income	\$1,059.2	\$862.1
Income taxes	571.2	459.8
Income before income taxes	1,630.4	1,321.9
Add fixed charges		
Interest expense (A)	36.3	29.1
Interest component of leases (B)	62.2	57.3
Total fixed charges	98.5	86.4
Earnings before income taxes and fixed charges (C)	\$1,728.9	\$1,408.3
Ratio of earnings to total fixed charges	17.6	16.3

(A) Interest expense includes both expensed and capitalized. (B) Interest component of leases includes one-third of rental expense, which approximates the interest component of operating leases.

(C) Earnings before income taxes and fixed charges is exclusive of capitalized interest.

## EXHIBIT 31.1

### Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark G. Parker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NIKE, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Date: April 7, 2006*

*/s/ Mark G. Parker*

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*Mark G. Parker  
Chief Executive Officer*

## EXHIBIT 31.2

### Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Donald W. Blair, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NIKE, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over Financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Date: April 7, 2006*

*/s/ Donald W. Blair*

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*Donald W. Blair  
Chief Financial Officer*

**EXHIBIT 32.1**

**Certification of Chief Executive Officer**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of NIKE, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended February 28, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: April 7, 2006*

*/s/ Mark G. Parker*

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*Mark G. Parker  
Chief Executive Officer*

A signed original of this written statement required by Section 906 has been provided to NIKE, Inc. and will be retained by NIKE, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of NIKE, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended February 28, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: April 7, 2006*

*/s/ Donald W. Blair*

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*Donald W. Blair  
Chief Financial Officer*

A signed original of this written statement required by Section 906 has been provided to NIKE, Inc. and will be retained by NIKE, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.