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NIKE, Inc. designs and markets a wide variety of athletic footwear, apparel and related items for competitive and recreational use.

NIKE has attained its premier position in the industry through quality production, innovative product and aggressive marketing.

Highlights

1 Selected Financial Data

	1986	1985	1984	1983	1982
	<i>(in thousands, except per share data)</i>				
Year Ended May 31:					
Revenues	\$1,069,222	\$946,371	\$919,806	\$867,212	\$693,582
Net income	59,211	10,270	40,690	57,004	49,036
Net income per common share	1.55	.27	1.07	1.53	1.37
Cash dividends declared per common share	.40	.40	.20	—	—
Increase (decrease) in working capital	60,935	(16,498)	24,476	97,701	37,483
At May 31:					
Working capital	\$278,784	\$217,849	\$234,347	\$209,871	\$112,170
Total assets	476,838	503,966	559,159	508,028	375,473
Long-term debt	15,300	7,573	8,823	10,503	9,086
Redeemable Preferred Stock	300	300	300	300	300
Common shareholders' equity	316,846	271,668	274,536	240,613	131,960

Common Stock Information

The Company's Class B Common Stock is traded in the NASDAQ National Market System under the NASDAQ symbol NIKE. At May 31, 1986, there were 31 security dealers making a market in the stock and there were approximately 6,500 shareholders of record.

The following summarizes price and dividend per share information for NIKE Common Stock as reported in the periods shown.

	Price Per Share (\$)				Dividends Paid	
	1986		1985		Per Share (\$)	
	High	Low	High	Low	1986	1985
First Quarter	12½	9¾	10½	7¾	.10	.10
Second Quarter	14¾	11¾	10½	6¾	.10	.10
Third Quarter	17¾	12¾	10½	7	.10	.10
Fourth Quarter	18¾	15¾	11½	8¾	.10	.10
Year	18¾	9¾	11½	6¾	.40	.40

Quarterly Financial Data

	Quarter Ended			
	May 31	February 28	November 30	August 31
	<i>(in thousands, except per share data)</i>			
Year Ended May 31, 1986:				
Revenues	\$244,951	\$258,655	\$237,908	\$327,708
Gross profit	81,901	80,814	77,514	106,070
Net income	13,726	11,491	9,843	24,151
Net income per common share	.36	.30	.25	.64
Year Ended May 31, 1985:				
Revenues	\$257,138	\$220,744	\$183,902	\$284,587
Gross profit	72,460	51,768	46,794	78,130
Net income (loss)	6,761	(2,117)	(2,196)	7,822
Net income (loss) per common share	.18	(.06)	(.06)	.21

The company has been in business 22 years, and 1986 was the best year we ever had.

That statement is written with considerable pride, particularly in view of the significant turnaround from 1985.

I should be able to say that and close.

But,

In business there truly is 'No Finish Line.' And, we must continually ask, "What have you done for me lately?" Accordingly, the real question on everyone's mind: "What does the future hold for NIKE?"

The puzzle is understandable. Bad '85, good '86, and futures orders for the first of '87 down.

I always encounter two main problems when talking about NIKE's future: (1) We are in an industry with a high consumer profile but poor statistics, so that everyone has an opinion, but no one is precisely sure what is going on; and (2) the company itself is one which the press likes to play up the offbeat and unusual.

In the space available let me give you my view on these two issues which dictate so much of our future.

We are in a relatively new, growth industry, made up of a series of old industries — shoes, clothing, and sporting goods. It is an international industry, with competitors sourcing and marketing all over the world.

It is, however, an industry that focuses on and derives its primary fuel from a changing America, a country moving increasingly to sports participation, informal life styles, and overall fitness.

The U.S. sports shoe portion of the industry grew from \$1.3 billion in 1981 to \$2.2 billion in 1985 — a 70% increase, 22% over the last two years. The U.S. apparel portion in this segment more than doubled in the same five years. The international market is bigger than the U.S. market. This trend plus the qualitative factors everyone sees in daily living indicate that this industry will continue its strong growth.

It is a somewhat unusual industry. It is relatively new, and there are not very established players worthy of admiration.

It is very easy to enter. Anybody with a glue pot and a pair of scissors can get into shoemaking, which was my mentor Bill Bowmaker's approach.

With its fast growth it is becoming increasingly segmented and because of these factors it is extremely competitive. The customer is placing great emphasis on "what's new?" which puts extreme pressure on all facets of innovation — technological, styling and marketing.

But for all its negatives, especially the competitive factors, if a company can be innovative, the market responds positively. For those companies following the innovator, competitive pricing becomes much more important.

There is also a thing that I call 'brand frenzy.' When, through an innovation, a new brand dominates a portion of the market, its products catch across the segments. Adidas went through that. We did. And in this last year Reebok has experi-

enced it. It is a heady but short ride, after which that brand must compete segment by segment, which is a big transition from automatic acceptance across the board.

The sum-up on the industry is that it is one in which the rewards and risks are huge.

The thing I like about NIKE, whose position I would not trade for any other in the industry, is that, on the negative side, in virtually any long run scenario, it is a significant player. On the positive side it will be, as it has been for the last five years, the leader in this industry and in so doing, can increase its profits significantly.

Which brings us to the issue of management.

Our sensationalized and maligned 'old boys.'

"Swoosh management" one magazine called it, which translates into kind of a Skywalker Ranch for ex-jocks.

I have not read one article about our management and its style which I have felt has been on target. Rather it is a result of a reporter trying to find an 'angle.'

We have some management problems. But then, American business in total is going through a kind of management crisis. A top business school attempts to address some of these problems in a 240-page case study on NIKE. You would not recognize the description of management as the same as portrayed in the press.

Our specific problems, from my view, are not so much style, or the caliber and background of the people we have recruited. It results more from a rapidly changing industry combined with some attrition in the company's original management team.

But while this has been going on, we have been raising a new group of company leaders. While I would by no means suggest we are on top of all our problems, I would point out that this group took us to our highest profits ever.

What the future holds for this industry and this management, is, of course, uncertain. The final question is "Can we compete?" In China they say you can't escape your tradition. Our tradition grew out of a laundry room in Southeast Portland.

Compete, I promise you, we can do.

Philip H. Knight

PHILIP H. KNIGHT
Chairman of the Board
and Chief Executive Officer



Photo by Dennis Adams

The numbers show that NIKE had a very good year. Good numbers usually result from good decisions made in prior years.

Understanding what NIKE faced and decided in 1986 will help in evaluating the company's future:

Market Growth

The growth trend in the sports and fitness market continued and showed good indications of future expansion, thereby increasing the company's profit potential.

Business Focus

To reach that potential, NIKE sharpened its focus to maximize strengths, remedy weaknesses and identify new areas of opportunity. The company recognized that its profit opportunities are greatest when the values of the NIKE brand are closely followed: quality, innovation, performance and authenticity. The definition of these values, however, has broadened as lifestyles have changed since the first NIKE was sold in 1971:

"*Quality*" means the level at which the entire company should operate, not just how long a shoe lasts.

"*Innovation*" means a breakthrough in any part of the company's business, not just a revolutionary new product.

"*Performance*" means a product that gives consumers what they need or want, not just a shoe that helps an athlete run faster or jump higher.

"*Authenticity*" means style derived from a genuine sport or fitness base, not just functional footwear for world class athletes.

Margin Improvement

Profit margins were significantly improved through proper inventory management and the understanding that the best products command the best margins.

Discontinuance of Unprofitable Operations.

Ongoing sources of financial drain or uncertainty were eliminated through the sale of the company's 51% interest in NIKE Japan, and the closure of manufacturing plants in Maine and Ireland.

International Success

NIKE's international business contributed over \$20 million of pre-tax profit (outside of Japan), a result of the groundwork laid over the past five years.

With that background, NIKE has set the following objectives for 1987:

1. Protect and improve NIKE's position as the number one athletic brand in America, with particular attention to the company's existing core businesses in running, basketball, tennis, football, baseball and kid's and newer businesses with good potential like golf and soccer.
2. Build a strong momentum in the growing fitness market, beginning with walking, workout and cycling.
3. Intensify the company's effort to develop products that women need and want.
4. Explore the market for products specifically designed for the requirements of maturing Americans.
5. Direct and manage the company's international business as it continues to develop.
6. Continue the drive for increased margins through proper inventory management and fewer, better products.

The discussion on the following pages shows, in part, how the company is attacking these objectives.



Running

NIKE is running. It was the origin of the company and will continue to be its source of strength.

NIKE Air® is to the athletic what the Waffle® was to the sneaker. NIKE will take this concept further in the coming year, beginning with the introduction of the Air Max.

Innovation will never stop.



Basketball

Basketball is America's game, for boys of all ages and growing numbers of women.

In the 1980's, NIKE has been the dominant force in the basketball market. The company reached this position by designing products to help performance and prevent injury; products that were inspired by an understanding and passion for a game that carries the creativity of Michael Jordan, the energy of Charles Barkley and the values of John Thompson.

That understanding will continue to drive NIKE basketball.



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Tennis

Wimbledon – to everyone who knows the game, it is hallowed ground. Where all great tennis players aspire to play. And where, “each blade of grass is an individual, with its own needs, its own destiny and its own right to grow on this blessed piece of lawn.”

By appointment to the All England Club, NIKE has introduced a collection of products equal to this dedication to quality and performance.

NIKE and Wimbledon – the ideal marriage of tennis excellence and tradition.





Workout

Exercise is a permanent part of the daily routine of more and more men, women and children. Americans are using a variety of exercise activities to reach their fitness goals, not just running or aerobics.

People who are serious about exercise need products that work — products that stand up to the activity and help prevent the injuries that break exercise patterns.

NIKE's position is built on these needs: products that work, for people who work.



Golf

The generation that has grown up in NIKE is turning to the game of golf.

While respecting the traditions of the game, the company has introduced significant innovations in golf shoe design. NIKE golf shoes are distinguished by their light weight, unusual comfort and fresh styling.

Golf is growing, and NIKE with it.



Walking

Walking is the exercise activity for everyone.

People who walk for exercise have a need for products specially designed for their activity and lifestyle. With so many joining the walking movement, there has also come a need for information that will help walkers safely reach their appropriate level of fitness.

NIKE is committed to providing such products and facts. NIKE believes in walking, not only as a business opportunity, but as a broad-based fitness activity that will contribute to the country's health.

Football
Baseball
Soccer

NIKE's strong position in the football and baseball market has been keyed by product advancements and a solid team dealer network. Innovation has been a result of collaboration with those who know the demands — coaches, trainers, equipment managers, players.

This understanding will mark NIKE's intensified attack on the world's largest sport: soccer.



26 **Note 5 - Property, plant and equipment:**

Property, plant and equipment includes the following:

	May 31,	
	1986	1985
	(in thousands)	
Land	\$11,979	\$12,525
Buildings	7,055	10,254
Machinery and equipment	63,302	61,321
Leasehold improvements	7,181	6,732
	89,517	90,832
Less accumulated depreciation	39,834	40,084
	<u>\$49,683</u>	<u>\$50,748</u>

Included with machinery and equipment are capital equipment leases of \$8,336,334 and \$8,283,000 at May 31, 1986 and 1985. Amortization of capital equipment leases aggregated \$6,018,000 and \$6,675,000 at May 31, 1986 and 1985, and is included with accumulated depreciation.

Note 6 - Short-term borrowings:

Notes payable to banks and interest-bearing accounts payable to Nishio Iwai American Corporation (NIAC) are summarized below:

	Banks		NIAC
	Domestic Operations	Foreign Operations	
	(in thousands)		
At May 31, 1986:			
Total borrowings	\$19,467	\$42,167	\$ 3,906
Interest rate	7 1/8%	8 3/4%	8%
At May 31, 1985:			
Total borrowings	\$48,206	\$69,367	\$18,182
Interest rate	8 1/4%	9 1/8%	10%

At May 31, 1986 the Company had \$10,000,000 in outstanding borrowings on its \$70,000,000 unsecured domestic revolving credit agreement with a group of four commercial banks. Subsequent to year-end, this agreement was replaced by a \$100,000,000 unsecured multiple option facility agreement with nine banks. This agreement contains optional borrowing alternatives consisting of a committed revolving loan facility, an uncommitted short-term advance facility and an uncommitted euro note facility. The interest rate charged on this agreement is determined by the borrowing option and is based on the London Interbank Offered Rate (LIBOR). The borrowing rate under the committed revolving loan facility is at LIBOR plus 1/8%. The agreement provides for annual fees of .15% of the total commitment plus fees based upon usage under the committed revolving loan facility. The agreement requires, among other things, the maintenance of specified financial ratios and balances and contains limits on the amount of investments and sales of assets. Total domestic borrowings also included \$9,467,000 and \$18,350,000 at May 31, 1986 and 1985, respectively, under unsecured uncommitted short-term credit facilities with several banks.

The Company has outstanding loans at interest rates at various spreads above the banks' cost of funds for financing foreign operations. Certain of these loans are secured by accounts receivable and inventory.

Accounts payable to NIAC are generally due up to 115 days after shipment from the foreign port. Interest on such accounts payable accrues at a bank's prime rate as of the beginning of the month of the invoice date, less 1/2%.

Note 7 - Long-term debt:

Long-term debt includes the following:

	May 31,	
	1986	1985
	(in thousands)	
9.45% - 11.7% notes payable to three international banks, due through March 1988	\$10,135	\$3,719
8.25% capital equipment purchase agreement payable in installments through June 1991	3,779	—
8.1% - 13.4% capital equipment lease obligations, payable in installments through 1991	2,324	2,088
12.5% note payable to the Malaysian Industrial Development Finance Berhad, secured by the property, plant and equipment located in Malaysia, due in semiannual installments through November 1990	1,826	2,193
10.77% - 12% notes payable to the Republic of Ireland Industrial Development Authority and to two Ireland banks, paid in full in December 1985	—	1,425
Other	653	444
	18,717	9,869
	3,417	2,296
Less portion due within one year	<u>\$15,300</u>	<u>\$7,573</u>

Amounts of long-term debt payable during the five years following May 31, 1986 are summarized as follows:

	Long-Term Debt Excluding Capital Lease Obligations	Capital Lease Obligations		Total
		Minimum Lease Payments	Amount Representing Interest	
	(in thousands)			
1987	\$2,501	\$1,115	\$ (199)	\$3,417
1988	9,865	500	(133)	10,232
1989	1,271	459	(90)	1,640
1990	1,375	459	(50)	1,784
1991	1,303	308	(45)	1,566
Later Years	78	—	—	78
	<u>\$16,393</u>	<u>\$2,841</u>	<u>\$ (517)</u>	<u>\$18,717</u>

27 **Note 8 - Income taxes:**

Income before income taxes and minority interest and the provision for income taxes are as follows:

	Year Ended May 31,		
	1986	1985	1984
	(in thousands)		
Income before income taxes and minority interest:			
United States	\$107,424	\$24,838	\$75,584
Foreign	2,593	(2,440)	2,837
	<u>\$110,017</u>	<u>\$22,398</u>	<u>\$78,421</u>
Provision for income taxes:			
Current:			
United States:			
Federal	\$42,580	\$10,409	\$33,268
State	6,577	909	6,868
Foreign	3,354	(590)	429
	<u>\$ 52,511</u>	<u>10,728</u>	<u>40,565</u>
Deferred:			
United States:			
Federal	5,484	4,425	(1,767)
State	(218)	34	(1,191)
Foreign	(17)	443	(40)
	<u>5,249</u>	<u>4,902</u>	<u>(2,998)</u>
	<u>\$ 57,760</u>	<u>\$15,630</u>	<u>\$37,567</u>

The provision for income taxes was reduced by investment tax credits of \$568,000, \$321,000 and \$495,000 for the years ended May 31, 1986, 1985 and 1984.

The sources and amounts of the provision for deferred income taxes were as follows:

	Year Ended May 31,		
	1986	1985	1984
	(in thousands)		
Inventory adjustment to market	\$ 2,931	\$ 2,492	\$(6,730)
Purchased tax benefits	4,475	4,734	4,903
Deferred compensation	(2,192)	(885)	—
Discount of barter credits	(1,732)	(1,290)	—
Undistributed earnings of foreign subsidiaries	2,444	838	—
Other, net	(677)	(987)	(1,171)
	<u>\$ 5,249</u>	<u>\$ 4,902</u>	<u>\$(2,998)</u>

The effective income tax rate differs from the U.S. statutory federal income tax rate as follows:

	Year Ended May 31,		
	1986	1985	1984
U.S. Federal statutory rate	46.0%	46.0%	46.0%
State income taxes, net of federal benefit	3.0	4.6	3.9
Foreign losses providing no tax benefits	2.7	15.8	—
Taxes on foreign earnings	0.1	1.8	—
Investment tax credit	(.5)	(1.4)	(.5)
Other, net	1.2	3.0	(1.5)
	<u>52.5%</u>	<u>69.8%</u>	<u>47.9%</u>

The Company has operating loss carryforwards for income tax purposes available as deductions from future foreign taxable income expiring as follows:

Year Ending May 31,	Tax Basis	Book Basis
	(in thousands)	
1988	\$ 1,067	\$ 2,185
1989	334	296
1990	142	2,316
1991	5,655	2,513
1992	588	—
1993	354	179
unlimited	4,909	4,350
	<u>\$13,049</u>	<u>\$11,839</u>

The losses were principally generated by operations in Malaysia and Germany. Utilization is contingent upon these operations attaining sufficient income.

Note 9 - Redeemable Preferred Stock:

NIAC is the sole owner of the Company's authorized Redeemable Preferred Stock, \$1 par value, which is redeemable at the option of NIAC at par value aggregating \$300,000. A cumulative dividend of \$.10 per share is payable annually on May 31 and no dividends may be declared or paid on the Common Stock of the Company unless dividends on the Redeemable Preferred Stock have been declared and paid in full. There have been no changes in the Redeemable Preferred Stock in the three years ended May 31, 1986. As the holder of the Redeemable Preferred Stock, NIAC does not have general voting rights but does have the right to vote as a separate class on the sale of all or substantially all of the assets of the Company and its subsidiaries, on merger, consolidation, liquidation or dissolution of the Company or on the sale or assignment of the NIKE trademark for athletic footwear sold in the United States.

19 *Operating Results*

Revenues from the sale of NIKE products in fiscal 1986 were \$1,069,222,000 compared to \$946,371,000 in 1985 and \$919,806,000 in 1984. Net income in fiscal 1986 was \$59,211,000 compared to \$10,270,000 in 1985 and \$40,690,000 in 1984.

The increase in 1986 net income was principally due to an improved gross margin of 32.4 percent compared to 26.3 percent in 1985. The improved margin is attributable to managing inventory levels and product lines with an emphasis on higher margin products.

Selling and administrative expenses reflected a modest 2 percent increase in 1986. As a percent of revenues, these expenses represented 19.6 and 21.6 in 1986 and 1985, respectively.

Interest expense declined because of reduced borrowing levels and lower interest rates.

The increase in other expense primarily reflects costs of manufacturing plant shutdowns in Maine and Ireland and the effect of the Company selling its 51 percent ownership in a Japanese subsidiary and in terminating its Japanese joint venture agreement.

The decline in 1985 net income, as compared to 1984, was caused by lower gross margins from the sale and writedown of slow moving inventories and increased selling and administrative expenses.

The following discussion reviews Company revenues during the three years ended May 31, 1986.

United States Operations

The approximate breakdown of revenues from the sale of NIKE products in the United States follows:

	<i>Year Ended May 31,</i>		
	<i>1986</i>	<i>1985</i>	<i>1984</i>
	<i>(in thousands)</i>		
Basketball	\$212,600	\$153,200	\$125,100
Running	150,000	163,600	240,200
Children's	115,400	101,000	97,100
Racquet	68,500	76,000	81,400
Fitness	54,100	13,800	—
Field Sports	35,400	38,100	42,200
Other	13,500	21,700	53,600
Total footwear	649,500	567,400	639,600
Apparel	164,600	160,400	121,800
Athletic equipment	2,500	2,300	—
	<u>\$816,600</u>	<u>\$730,100</u>	<u>\$761,400</u>

"Futures" orders booked for delivery of footwear from June through November 1986 are approximately 29 percent lower than such orders booked in the comparable period in the prior year. Because the mix of "Futures" and "at once" shipments may vary significantly from quarter to quarter and from year to year, "Futures" orders received are not necessarily indicative of total revenues for subsequent periods.

Foreign Operations

The approximate breakdown of revenues from the sale of NIKE products outside the United States follows:

	<i>Year Ended May 31,</i>		
	<i>1986</i>	<i>1985</i>	<i>1984</i>
	<i>(in thousands)</i>		
Europe	\$166,300	\$108,700	\$ 80,600
Japan	42,400	64,100	60,600
Canada	22,900	27,000	2,100
Other	21,100	16,500	15,100
	<u>\$252,700</u>	<u>\$216,300</u>	<u>\$158,400</u>

During 1986, Company-owned operations distributed NIKE products in Austria, Canada, France, Great Britain, Japan, Norway, Sweden and West Germany. Effective April 30, 1984, the Company commenced direct distribution in Canada through the acquisition of the Canadian distributorship. Sales in other foreign markets are made through independent distributors or licensees.

In May 1986, the Company sold its 51 percent ownership in its Japanese subsidiary and entered a licensing agreement with the purchaser for sales of NIKE products in Japan. As detailed in Note 4 of the annual financial statements, NIKE's share of the subsidiary's net (loss) income included in operations amounted to (\$7,145,000), (\$3,650,000) and \$170,000 for the years ended 1986, 1985 and 1984.

Liquidity and Capital Resources

The consolidated balance sheet at May 31, 1986 does not include the former Japanese subsidiary which had total assets of \$71,000,000 at the time of sale. Consequently, this may impact the comparability of certain balance sheet items and financial ratios.

The decrease in current assets of \$25,813,000 in 1986 was primarily due to a reduction of accounts receivable. Inventories at May 31, 1986 aggregated \$180,205,000, a reduction of \$6,080,000 from 1985 levels. Inventory turns for 1986 were 4.0 compared to 3.0 in 1985 and 2.3 in 1984. Current liabilities were lower by \$86,748,000. As a result, the current ratio at May 31, 1986 was 3.1:1 compared to 2.0:1 at May 31, 1985 and 1.85:1 at May 31, 1984.

Capital expenditures for 1986 aggregated \$16,723,000, due principally to purchases in data processing and warehousing and improvements to office facilities. This compares to capital expenditures of \$21,724,000 in 1985 and \$15,224,000 in 1984.

NIKE's ratio of debt to equity at May 31, 1986 was .5:1 compared to .9:1 at May 31, 1985 and 1.0:1 at May 31, 1984.

Quarterly cash dividends of \$.10 per share, initially declared in February 1984, were continued through fiscal 1986. Based upon currently projected earnings and cash flow requirements, the Company anticipates paying a regular quarterly dividend of \$.10 per share.

See Note 6 of the annual financial statements for information on refinancing the Company's short-term debt. In addition, on June 26, 1986, the Company signed a \$25 million seven-year term loan at a fixed interest rate of 8.45 percent. This loan was utilized for working capital purposes. Management believes that currently available resources, together with funds generated by operations, will adequately finance 1987 working capital requirements and capital expenditures.

Financial Reporting

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Management of NIKE, Inc. is responsible for the information and representations contained in this report. The financial statements have been prepared in conformity with the generally accepted accounting principles we considered appropriate in the circumstances and include some amounts based on our best estimates and judgments. Other financial information in this report is consistent with these financial statements.

The Company's accounting systems include controls designed to reasonably assure that assets are safeguarded from unauthorized use or disposition and which provide for the preparation of financial statements in conformity with generally accepted accounting principles. These systems are supplemented by the selection and training of qualified financial personnel and an organizational structure providing for appropriate segregation of duties.

An Internal Audit Department reviews the results of its work with the Audit Committee of the Board of Directors, presently consisting of three directors who are not employees of the Company. The Audit Committee is responsible for recommending to the Board of Directors the appointment of the independent accountants and reviews with the independent accountants, management and the internal audit staff, the scope and the results of the annual examination, the effectiveness of the accounting control system and other matters relating to the financial affairs of the Company as they deem appropriate. The independent accountants and the internal auditors have full access to the Committee, with and without the presence of management, to discuss any appropriate matters.

Report Of Independent Accountants

Portland, Oregon
July 22, 1986

To the Board of Directors and
Shareholders of NIKE, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in financial position and of shareholders' equity present fairly the financial position of NIKE, Inc. and its subsidiaries at May 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended May 31, 1986, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

NIKE, Inc. Consolidated Statement of Income

21 Year Ended May 31,

	1986	1985	1984
	<i>(in thousands, except per share data)</i>		
Revenues	\$1,069,222	\$946,371	\$919,806
Costs and expenses:			
Cost of sales	722,923	697,219	658,549
Selling and administrative	209,219	204,834	163,414
Interest (Notes 6 and 7)	15,820	21,933	19,597
Other (income) expense (Notes 4 and 11)	11,243	(13)	(175)
	<u>959,205</u>	<u>923,973</u>	<u>841,385</u>
Income before provision for income taxes and minority interest	110,017	22,398	78,421
Provision for income taxes (Note 8)	57,760	15,630	37,567
Income before minority interest	52,257	6,768	40,854
Minority interest	(6,954)	(3,502)	164
Net income	\$ 59,211	\$ 10,270	\$ 40,690
Net income per common share (Note 1)	\$1.55	\$.27	\$1.07
Average number of common and common equivalent shares (Note 1)	38,179	37,893	37,934

NIKE, Inc.
Consolidated Balance Sheet

22 May 31,

Assets	1986	1985
	(in thousands)	
Current Assets:		
Cash	\$ 8,107	\$ 7,017
Short-term investments, at cost which approximates market	10,031	—
Accounts receivable, less allowance for doubtful accounts of \$5,596 and \$6,325, respectively	185,633	214,797
Inventories (Notes 1 and 2)	180,205	186,285
Deferred income taxes and purchased tax benefits (Notes 1 and 8)	16,486	17,485
Prepaid expenses (Note 3)	9,163	11,739
Income taxes receivable	1,885	—
Total current assets	411,510	437,323
Property, plant and equipment (Notes 5 and 7)	89,517	90,832
Less accumulated depreciation	39,834	40,084
	49,683	50,748
Other assets (Notes 1 and 3)	15,645	15,895
	<u>\$476,838</u>	<u>\$503,966</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt (Note 7)	\$ 3,417	\$ 2,296
Notes payable to banks (Note 6)	61,634	117,573
Accounts payable (Note 6)	23,648	59,294
Accrued liabilities	44,027	37,644
Income taxes payable	—	2,667
Total current liabilities	132,726	219,474
Long-term debt (Note 7)	15,300	7,573
Non-current portion of purchased tax benefits (Note 1)	11,666	7,350
Commitments and contingencies (Note 12)	—	—
Minority interest in consolidated subsidiaries (Note 4)	—	(2,399)
Redeemable Preferred Stock (Note 9)	300	300
Shareholders' equity (Note 10):		
Common Stock at stated value		
Class A convertible — 15,051 and 16,628 shares outstanding	180	199
Class B — 22,721 and 20,763 shares outstanding	2,697	2,673
Capital in excess of stated value	81,633	78,206
Unrealized translation gain (loss)	(907)	1,873
Retained earnings	232,843	188,717
	<u>316,846</u>	<u>271,668</u>
	<u>\$476,838</u>	<u>\$503,966</u>

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

NIKE, Inc.
Consolidated Statement of Changes in Financial Position

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Year Ended May 31,

	1986	1985	1984
	(in thousands)		
Financial resources were provided by:			
Net income	\$ 59,211	\$ 10,270	\$ 40,690
Income charges (credits) not affecting working capital —			
Depreciation	10,549	11,964	10,632
Minority interest	(6,954)	(3,502)	164
Other	1,225	1,161	70
Working capital provided by operations	64,031	19,893	51,556
Purchased tax benefits becoming current	—	—	1,716
Additions to long-term debt	8,975	3,725	1,363
Disposal of property, plant and equipment	8,192	1,309	1,186
Liquidation of minority interest	9,353	—	—
Unrealized gain from translation of statements of foreign operations, including minority interest	—	1,413	787
Proceeds from exercise of stock options	3,432	750	—
Increase in non-current portion of purchased tax benefits	4,316	7,350	—
	<u>98,299</u>	<u>34,440</u>	<u>56,608</u>
Financial resources were used for:			
Additions to property, plant and equipment	16,723	21,724	15,224
Dividends — Common and Preferred Stock	15,085	14,974	7,484
— minority shareholder	—	51	195
Goodwill	500	1,866	5,439
Long-term debt becoming current	2,866	4,553	2,785
Additions to other assets	475	1,352	1,005
Unrealized loss from translation of statements of foreign operations, including minority interest liquidation	1,715	—	—
Purchase of barrier credits	—	6,418	—
	<u>37,364</u>	<u>50,938</u>	<u>32,132</u>
Increase (decrease) in working capital	\$ 60,935	\$ (16,498)	\$ 24,476
Analysis Of Changes In Working Capital			
Increase (decrease) in current assets:			
Cash	\$ 1,090	\$ (1,303)	\$ (4,718)
Short-term investments	10,031	—	—
Accounts receivable	(29,164)	25,385	37,831
Inventories	(6,080)	(94,345)	(3,158)
Deferred income taxes and purchased tax benefits	(999)	1,277	5,705
Prepaid expenses	(2,576)	3,700	1,414
Income taxes receivable	1,885	(6,250)	6,250
	<u>(25,813)</u>	<u>(71,536)</u>	<u>43,324</u>
Increase (decrease) in current liabilities:			
Current portion of long-term debt	1,121	(264)	213
Notes payable to banks	(55,939)	(25,959)	11,440
Accounts payable	(35,646)	(40,650)	8,842
Accrued liabilities	6,383	9,168	9,455
Income taxes payable	(2,667)	2,667	(11,102)
	<u>(86,748)</u>	<u>(55,038)</u>	<u>18,848</u>
Increase (decrease) in working capital	\$ 60,935	\$ (16,498)	\$ 24,476

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

NIKE, Inc.
Consolidated Statement of Shareholders' Equity

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	Common Stock				Capital In Excess of Stated Value (in thousands)	Unrealized Translation Gain (Loss)	Retained Earnings	Total
	Class A		Class B					
	Shares	Amount	Shares	Amount				
Balance at May 31, 1983	18,837	\$225	18,434	\$2,646	\$77,457	\$ 70	\$160,215	\$240,613
Conversion to Class B Common Stock	(1,178)	(14)	1,178	14				—
Gain on translation of statements of foreign operations						717		717
Net income — year ended May 31, 1984							40,690	40,690
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(7,454)	(7,454)
Balance at May 31, 1984	17,659	211	19,612	2,660	77,457	787	193,421	274,536
Stock options exercised	120	1			749			750
Conversion to Class B Common Stock	(1,151)	(13)	1,151	13				—
Gain on translation of statements of foreign operations						1,086		1,086
Net income — year ended May 31, 1985							10,270	10,270
Dividends on redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(14,944)	(14,944)
Balance at May 31, 1985	16,628	199	20,763	2,673	78,206	1,873	188,717	271,668
Stock options exercised	210	3	171	2	3,427			3,432
Conversion to Class B Common Stock	(1,787)	(22)	1,787	22				—
Loss on translation of statements of foreign operations						(4,576)		(4,576)
Disposal of foreign subsidiary						2,196		2,196
Net income — year ended May 31, 1986							59,211	59,211
Dividends on redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(15,055)	(15,055)
Balance at May 31, 1986	15,051	\$180	22,721	\$2,697	\$81,633	\$ (507)	\$232,843	\$316,846

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

NIKE, Inc.
Notes to Consolidated Financial Statements

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Note 1 — Summary of significant accounting policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The investment in a 50% owned enterprise is carried at equity. All significant intercompany transactions and balances have been eliminated. To facilitate the timely preparation of the consolidated financial statements, the accounts of certain foreign operations have been consolidated for fiscal years ending in April.

Recognition of revenues

Revenues recognized include sales by the Company plus fees earned on sales by licensees.

Inventory valuation

Inventories are recorded at the lower of cost, last-in first-out (LIFO), or market. The excess of replacement cost over LIFO cost approximated \$4,756,000 at May 31, 1986 and \$10,935,000 at May 31, 1985.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are charged against income and renewals and betterments are capitalized. The cost and related accumulated depreciation of property, plant and equipment sold or otherwise disposed of are eliminated from the accounts and the resulting gains or losses are reflected in income. Depreciation for financial reporting purposes is determined on a straight-line basis for buildings and leasehold improvements and principally on a declining balance basis for machinery and equipment.

Goodwill

Included in other assets at May 31, 1986, net of amortization of \$1,766,000, is \$6,110,000 of purchase cost over the fair value of net assets of businesses acquired. This excess is being amortized on a straight-line basis over a period of eight years.

Income taxes

Deferred income taxes are recognized for timing differences between income for financial reporting purposes and taxable income. Investment tax credits are recognized in the year the related assets are placed in service. During 1982, the Company purchased future tax benefits for \$15,277,000. Tax benefits of \$7,296,000 in excess of the purchase price have been recognized as of May 31, 1986. The current portion of purchased tax benefits of \$4,369,000 is included in deferred income taxes and the non-current portion of \$11,666,000 has been classified as a long-term liability.

Net income per common share

Net income per common share is computed based on the weighted average number of common and common equivalent (stock option) shares outstanding for the periods.

Note 2 — Inventories:

Inventories by major classification are as follows:

	May 31,	
	1986	1985
	(in thousands)	
Finished goods	\$177,913	\$179,644
Raw materials	852	3,464
Work-in-process	1,460	3,177
	<u>\$180,205</u>	<u>\$186,285</u>

During 1986 and 1985, certain inventory quantities were reduced resulting in liquidations of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1986 and 1985 purchases. For the years ended May 31, 1986 and 1985 the liquidations of LIFO inventory quantities resulted in a decrease to cost of sales of approximately \$1,088,000 and \$1,625,000, and increased net income by approximately \$.01 and \$.02 per share.

Note 3 — Barter transaction:

During fiscal year 1985, the Company entered into a barter agreement with a trading organization to exchange closeout footwear and apparel inventory for cash and credits to be used in obtaining various goods and services in the future. In 1986 and 1985, the Company exchanged inventory valued at \$700,000 and \$17,000,000, respectively, for cash and credits.

As of May 31, 1986, the Company had received approximately \$5,500,000 in cash and the utilization of barter credits from the transaction. The Company expects to use an additional \$1,000,000 in cash and credits during fiscal year 1987. The remainder of \$5,200,000, net of discount, is included in other assets.

Note 4 — Sale of Japanese subsidiary:

In May 1986 the Company sold its 51% interest in its Japanese subsidiary and terminated its Japanese joint venture agreement. The transactions had a nominal effect on after tax income, the components of which are included in other expense and the provision for income taxes. The subsidiary, which had total assets of \$71,000,000 at the time of sale, is not included in the May 31, 1986 consolidated balance sheet. For the three years ended May 31, 1986, total revenues for this subsidiary included in the consolidated statement of income were \$42,000,000, \$65,000,000 and \$61,000,000 respectively; Nike's share of the net (loss) income included in operations amounted to (\$7,145,000), (\$3,650,000) and \$170,000 for the years ended 1986, 1985 and 1984. The Company will continue to market its products in Japan through a licensing agreement.

The authorized number of shares of Class A Common Stock no par value and Class B Common Stock no par value are 20,000,000 and 50,000,000 respectively. Each share of Class A Common Stock is convertible into one share of Class B Common Stock. Voting rights of Class B Common Stock are limited in certain circumstances with respect to the election of directors.

The Company's Employee Incentive Compensation Plan (Option Plan) provides for the issuance of a maximum of 1,680,000 shares of the Company's Common Stock. Options granted must not be at a price less than the fair market value of the Class B Common Stock at the date of grant and can be issued in either Class A or Class B Common Stock. The Option Plan is administered by a committee of the Board of Directors which has the authority to determine optionees, the number of shares to be covered by each option, the dates upon which each option is exercisable, the method of payment, and certain other terms. The Option Plan has a stock appreciation feature which gives the committee authority to allow a specified holder to surrender his option in exchange for (1) the cash value of the difference between the option price and the fair market value of the common stock subject to option at the date of surrender, (2) the number of shares having such cash value or (3) a combination of the above. The Option Plan expires in 1990.

The following summarizes the Option Plan transactions for the two years ended May 31, 1986:

	Shares (in thousands)	Option Price Per Share (\$)
Options outstanding June 1, 1984	293	10.125 to 19.75
Granted	650	9.50
Surrendered or expired	(25)	9.50 to 19.75
Options outstanding May 31, 1985	918	9.50 to 19.75
Exercised	(172)	9.50 to 19.75
Surrendered or expired	(47)	9.50 to 19.75
Options outstanding May 31, 1986	699	9.50 to 19.75
Options exercisable at May 31:		
1985	194	9.50 to 19.75
1986	202	9.50 to 19.75

During 1985 the exercise price of 155,660 outstanding options under the Option Plan were reduced to \$9.50 per share from \$10.125 to \$15.69 per share.

Compensation agreements with three non-employee directors provide these directors with the right to purchase up to 720,000 shares of the Company's Class A Common Stock at \$4.17 per share. The estimated fair market value of these shares at the date granted was \$6.25 per share aggregating \$4,500,000. During the years ended May 31, 1986, 1985 and 1981 certain directors exercised options for 210,000, 120,000 and 72,000 shares,

respectively. At May 31, 1986 options for 30,000 shares were vested and unexercised. The rights to purchase an additional 72,000 of these shares will vest in October of each of the years 1986 through 1989 as long as the directors serve in an advisory capacity during that period and meet other specified conditions. All purchase rights must be exercised by October 1994. The Company is recognizing compensation expense of \$4,200,000 over the nine year vesting period through October 1989.

In September 1983, the Company granted options to purchase 10,000 shares of Class B Common Stock to two directors at an exercise price of \$16.25 per share. During 1985 the two directors were granted options for an additional 20,000 shares of Class B Common Stock exercisable at \$9.50 per share and the option price of the original 10,000 options granted was changed to \$9.50 per share. The options vest over a five year period commencing in September 1985 and expire in 1995. At May 31, 1986, 18,000 shares were exercisable.

At May 31, 1986, a portion of the remaining authorized but unissued shares of Class B Common Stock are reserved for the Company's Employee Incentive Compensation Plan and the conversion of Class A Common Stock outstanding and options granted for Class A Common Stock.

Note 11 - Profit sharing plan:

The Company has a profit sharing plan available to substantially all employees. The terms of the plan call for annual contributions by the Company as determined by the Board of Directors. Contributions of \$2,000,000, \$300,000 and \$1,356,000 to the plan are included in other expense in the consolidated financial statements for the years ended May 31, 1986, 1985, and 1984.

Note 12 - Commitments and contingencies:

The Company leases space for its offices, warehouses and retail stores under leases expiring from one to thirteen years after May 31, 1986. Rent expense aggregated \$13,602,000, \$13,410,000 and \$11,515,000 for the years ended May 31, 1986, 1985, and 1984 respectively. The following is a schedule of minimum future rentals on noncancelable operating leases as of May 31, 1986 (in thousands):

Year Ending May 31:	
1987	\$10,518
1988	9,337
1989	7,737
1990	5,820
1991	5,162
Later years	24,566
Total minimum future rentals	\$63,140

In June 1983, the Company was served in a lawsuit filed by an individual against the Company and certain present and past employees of the Company seeking an unspecified amount, stated by the Complaint to be in excess of \$10 million in general damages and \$25 million in punitive damages for alleged

breaches of contract and tortious conduct surrounding the Company's termination of a business relationship with the individual. Most of the claims have been dismissed on procedural grounds, and the Company believes the remaining claims are without merit and will not result in a material loss to the Company.

In 1986, the Company acquired a 50% interest in the stock of an entity for \$500,000. The terms of the stock purchase agreement allow for the total purchase price of this stock to increase to an aggregate of \$6,500,000 if the entity meets specified earnings levels over the next five years. The Company is also guarantor on the entity's bank line of credit of \$1,900,000.

Note 13 - Operations by geographic areas:

Information about the Company's operations in the United States and foreign areas is presented below. Intersegment revenues and assets have been eliminated to arrive at the consolidated amounts.

	Year Ended May 31, 1986				Year Ended May 31, 1985				Year Ended May 31, 1984			
	United States	Europe	Other Foreign	Consolidated	United States	Europe	Other Foreign	Consolidated	United States	Europe	Other Foreign	Consolidated
Revenues from unrelated entities	\$816,562	\$166,294	\$ 86,366	\$1,069,222	\$730,096	\$108,724	\$64,088	\$ 902,908	\$761,414	\$158,392	\$919,806	
Intra-company revenues	3,318	1,610	38,860		6,955	5,450	—	12,405	2,405	13,332		
	\$819,880	\$167,904	\$125,226		\$737,051	\$114,174	\$64,088	\$ 915,309	\$763,819	\$171,724		
Operating income (loss)	\$120,827	\$17,857	\$ 4,152	\$142,836	\$ 43,641	\$ 9,067	\$ 229	\$ 53,937	\$ 90,544	\$12,046	\$102,590	
Corporate and other expense				(18,969)				(6,923)			(4,572)	
Interest				(15,820)				(21,933)			(19,997)	
Intra-company eliminations				1,790				219			—	
				(12,999)				(20,644)			(24,169)	
Income before provision for income taxes and minority interest				\$ 110,017				\$ 27,398			\$ 78,421	
	Year Ended May 31, 1986				Year Ended May 31, 1985				Year Ended May 31, 1984			
	Identifiable assets	Unidentifiable assets	Goodwill	Intangible assets	Identifiable assets	Unidentifiable assets	Goodwill	Intangible assets	Identifiable assets	Unidentifiable assets	Goodwill	Intangible assets
Cash	\$353,057	\$ 79,937	\$40,018	\$ 473,012	\$349,546	\$ 43,772	\$61,645	\$ 454,963	\$416,928	\$134,467	\$551,395	
Intra-company eliminations				(262)				(7,927)			(556)	
				\$ 472,750				\$ 447,036			\$ 545,839	
Total assets				\$ 472,750				\$ 447,036			\$ 545,839	

In accordance with the requirements of the Financial Accounting Standards Board, the Company presents the following information. The objective of the requirements is to measure the estimated effects of inflation. Historical dollar amounts as reported in the primary financial statements have been adjusted to show the effects of changes in specific prices (current costs). Because the Company values its inventories at the lower of cost, last-in first-out (LIFO), or market, which results in recognition of current cost of goods in cost of sales and since total property, plant and equipment are a relatively minor portion of total assets, the effects of inflation on the Company as measured under the stan-

*Consolidated Statement of Operations Adjusted
For The Effects of Changing Prices (in thousands)*

	Year Ended May 31, 1986	
	As Reported	Adjusted for Current Cost
Revenues	\$1,069,222	\$1,069,222
Cost of sales*	721,169	721,169
Depreciation	10,549	11,108
Selling and administrative*	200,424	200,424
Interest	15,820	15,820
Other (income)	11,243	11,243
	959,205	959,764
Income before provision for income taxes and minority interest	110,017	109,458
Provision for income taxes	57,760	57,760
Income before minority interest	52,257	51,698
Minority interest	(6,954)	(6,954)
Net income	\$ 59,211	\$ 58,652

The increase in inventories and property, plant and equipment resulting from general inflation of \$5,759 was offset by a decrease in the specific prices of such assets of \$11,007. At May 31, 1986, the current cost of inventories was \$183,944 and the current cost of property, plant and equipment, net of accumulated depreciation and amortization was \$52,048. Corresponding historical cost amounts were \$180,205 for inventories and \$49,683 for property, plant and equipment.

*Exclusive of depreciation.

dards are not significant. Management has not concluded that this information accurately represents the true impact inflation has on the Company.

The current cost information was derived by applying published government and private indexes to the related historical costs in current year average dollars. The depreciation and amortization amounts under the current cost method were computed by applying the appropriate indexes against the historical amounts. The provision for income taxes has not been changed because the adjustments are not tax deductible.

*Five-Year Comparison of Selected Supplementary Financial
Data Adjusted For The Effects of Changing Prices*

	Year Ended May 31,				
	1986	1985	1984	1983	1982
	(in thousands, except per share and CPI data)				
Revenues:					
As reported	\$1,069,222	\$946,371	\$919,806	\$867,212	\$693,582
Current cost information:					
Net income	58,652	9,600	39,999	58,413	52,534
Net income per common share	1.54	.25	1.05	1.57	1.47*
Net assets at year-end	323,250	282,184	283,585	259,607	148,476
Decrease in current cost of inventories and property, plant and equipment, exclusive of inflation	11,007	11,467	13,824	6,696	12,097
Other information:					
Purchasing power gain (loss) on net monetary items	(216)	1,991	4,884	2,356	5,405
Market price per common share at year-end as reported	17½	11½	9½	19½	14½*
Average consumer price index	325.7	315.5	303.6	292.6	280.3
Cash dividends declared per common share as reported	.40	.40	.20		

*Adjusted for 2-for-1 stock split
distributed in January 1983.

Directors

32 William J. Bowerman
*Deputy Chairman of the Board of Directors
and Senior Vice President*

Robert T. Davis (2)
*Professor of Marketing, Stanford University
Palo Alto, California*

Richard K. Donahue (2) (3)
*Partner-Donahue & Donahue, Attorneys
Lowell, Massachusetts*

Delbert J. Hayes (1)
Executive Vice President

Douglas G. Houser (2) (3)
*Assistant Secretary, NIKE, Inc.
Partner-Bullivant, Houser, Bailey, Hanna,
Pendergrass, Huffman, O'Connell & Goyak,
Attorneys
Portland, Oregon*

John E. Jaqua (3)
*Secretary, NIKE, Inc.
Partner-Jaqua, Whitley, Gallagher &
Holland, Attorneys
Eugene, Oregon*

Philip H. Knight (1)
*Chairman of the Board of Directors
and President*

Thomas O. Paine
*Chairman, Thomas O. Paine Associates
Los Angeles, California*

Charles W. Robinson
*Chairman, Energy Transition Corporation
Santa Fe, New Mexico*

Robert L. Woodell
Member of the Board of Directors

(1) Member - Executive Committee

(2) Member - Audit Committee

(3) Member - Compensation and Stock Option Committee

Officers

Philip H. Knight
*Chairman of the Board of Directors
and President*

William J. Bowerman
*Deputy Chairman of the Board of Directors
and Senior Vice President*

Delbert J. Hayes
Executive Vice President

Harry C. Carsh
Vice President

Ronald E. Nelson
Vice President

George E. Porter
Vice President-Finance

Robert J. Strasser
Vice President

Dale N. Wahl
Treasurer

A. Thomas Niebergall
Assistant Secretary

Lindsay D. Stewart
Assistant Secretary

Locations

Corporate Headquarters

3900 S.W. Murray Blvd.
Beaverton, Oregon 97005

United States Sales and Distribution Centers

8400 Winchester Blvd.
Menlo Park, California 94028

2455 N.W. Nicolai Street
Portland, Oregon 97210

150 Ocean Road
Greenland, New Hampshire 03840

Foreign Sales Administrative Office

10500 S.W. Allen Blvd.
Beaverton, Oregon 97005

Canada Sales and Marketing Office

NIKE Canada Ltd.
2445 Canoe Avenue
Coquitlam, British Columbia
Canada V3K 6A9

European Sales and Marketing Offices

Austria
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5023 Salzburg
Austria

Great Britain
Coniston House
Washington Centre
District 4, Washington
Tyne & Wear NE38 7RN
England

France
7, BLD D'Oury
Paris D'Activites de Cergy
St. Christophe BP 8237
95801 Cergy Pontoise Cedex
France

Germany
Feldstrasse 16
6108 Witten
West Germany

Norway
Hartmannsvei 44
Oslo-2
Norway

NIKE-owned Shoe Component Manufacturing Facility

Lot 47, Kalim Industrial Estate
Kalin, South Korea

Malaysia



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NIKE, Inc. is an equal opportunity employer.

Shareholders' Information

Corporate Office

3900 S.W. Murray Blvd.
Beaverton, Oregon 97005
(503) 641-6453

Annual Meeting

10 a.m., September 22, 1986
Mallinckrodt Athletic Club
1849 S.W. Salmon
Portland, Oregon 97205

NIKE Advisory Council

Maurice Lazarus
Boston, Massachusetts

Independent Accountants

Pricewaterhouse
101 S.W. Main Street-Suite 1700
Portland, Oregon 97204

Registrar and Transfer Agents

United States National Bank of Oregon
309 S.W. 5th Avenue
Portland, Oregon 97204

Form 10-K

A copy of the Company's 10-K filed with the Securities and Exchange Commission is available without charge to any shareholder. Requests should be sent to the attention of Director of Investor Relations at the Corporate Office.



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