

## NIKE, INC. 1989 ANNUAL REPORT

Basketball, Aerobics, Tennis, Cross-Training, Water Sports, Kids, Fitness, Running, Volleyball, Football, Cheerleading, Cole-Haan Dress/Casual, Walking,



Racquetball, Soccer, Hiking, Track & Field, Wrestling, Cycling, Infants, Squash, Softball,



Casual, Basketball, Kids, Soccer, Track

Golf, i.e. and Side 1 Sport

Aerobics, Tennis, Water Sports, Cross-Training, Volleyball, Cheerleading, Football, Racquetball, Walking, Cole-Haan Dress/Casual, Golf, Track & Field, Wrestling, Cycling, Infants, Squash, i.e. and Side 1 Sport/Casual, Softball, Basketball, Aerobics,

& Field, Fitness, Running,



Walking, Soccer, Hiking, Track Wrestling, Infants, Basketball, Sport/Casual, Softball, Squash,

Tennis, Cross-Training, Water Sports, Kids, Fitness, Running, Volleyball, Cheerleading, Hiking, Golf, Cole-Haan Dress/Casual, Racquetball, Football,



& Field, Cycling, i.e. and Side 1 Aerobics, Tennis, Cross-Training, Water Sports, Fitness, Running, Kids, Volleyball, Football, Cheerleading, Walking, Cole-Haan Dress/Casual, Golf, Soccer, Hiking, Racquetball, Track & Field, Wrestling, Basketball,

Cycling, Infants, Aerobics, Softball, Squash, i.e. and Side 1 Sport/Casual, Tennis, Cross-Training, Fitness.



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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.

## TO OUR SHAREHOLDERS

When I left you on this page one year ago, I was euphoric over our record earnings of \$2.70, and our clear cut strategy which gave us great growth opportunities in shoes and apparel around the world. In 1989, we made good progress on our very ambitious long-term goals. And we earned \$4.45. Let me put that into perspective.

As I got ready to write this letter, it occurred to me that this is my final chairman's letter of the decade. So I decided to go back and dig out the prospectus from our initial stock offering in 1980. I found the comparisons of the Company between then and now interesting and useful:

	1980	1989
Sales	\$270 million	\$1,710 million
Gross Profit Percent (% of Sales)	27.1%	37.2%
Operating Expenses (% of Sales)	14.8%	20.7%
Net Income (% of Sales)	4.6%	9.8%
Earnings per share	\$0.39	\$4.45
Stock price (at issue)	\$11	\$43 (July 10, 1989)
Equity	\$29 million	\$562 million
Interest-bearing Debt-to-Equity Ratio	2.9	0.2

During this decade, our return on investment (net income divided by average equity) averaged 25% vs. the Standard and Poor's average of 17%.

As good as our growth rate has been, others in our industry have had periods of faster growth, but in my opinion we have been, overall, more solid. When we started the decade, we were primarily a running shoe company. We built the company in 1980 around four key principles: Innovation, Strong Factory Relationships, Sales, and Athlete Promotions. While we have stayed strong in those areas, over the past three years we have put particular emphasis on additional principles: Design, Advertising, Customer Service, Brand Positioning and Profitability.

Our efforts have met with some success. There is today far more substance and far less risk (although there is still plenty of risk). In addition to running, we are basketball, cross-training, and cleated, all categories where we are a strong number one. We are also poised to grow in categories like tennis, golf, cycling and walking. In addition, our apparel operations have made significant headway and our international business, while making steady progress, has barely scratched the surface of markets that may be bigger than the U.S. market.

At NIKE, we also measure success in non-financial terms. SPORTING GOODS DEALER magazine, in its August 1989 edition, published a poll of retailers who rated manufacturers by product category based on "which manufacturers best help your business." Within footwear, NIKE ranked first in Baseball, Fitness, Football, Golf, Running, Tennis, and Walking.

NIKE also ranked first in nine out of ten service categories including delivery, distribution, innovation, responsiveness to complaints, advertising support, return policies, packaging and point-of-purchase aids. The magazine went on to say "NIKE was mentioned more often than any other company for its excellence in individual product categories."



And that is the point. That is how I define solid. It is how we are trying to build a lifestyle company around a sports and fitness core. It is all part of a conscious effort to make the Company stronger, less vulnerable to a decline in one category. As NIKE Marketing VP Dr. Tom Clarke says, "We have been adding pillars to the platform of excellence." Those pillars are not just the sports categories we succeed in, or even the overall service success. They are the talented, experienced and committed people at NIKE who make those rankings happen.

Although sports and fitness categories provide the bulk of our sales and profit, one should be reminded of our effort in casual footwear. Cole-Haan, SIDE 1, and I, e. are all in their infancy and growing at a fast pace: \$65 million in sales in 1988, \$93 million in 1989, and on target for well over \$100 million in 1990.

It is not very likely that we will increase earnings per share eleven-fold over the next decade as we did in the 1980s. While that may not be possible, we do have a number of things going for us:

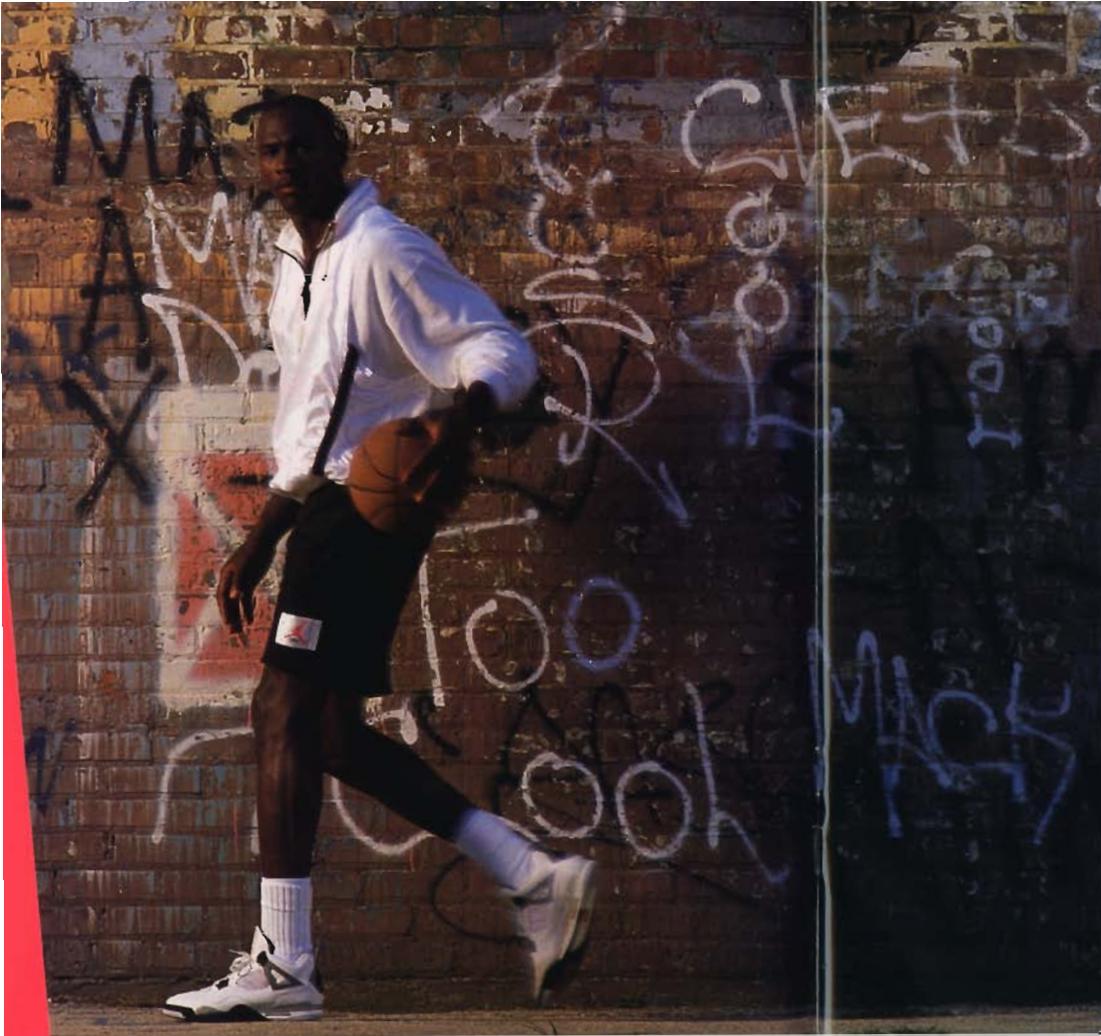
1. Sports and fitness as a way of life will continue to grow in the United States through the next decade and even faster outside the United States.
2. We are positioned extremely well in this industry, both in retailer and consumer attitudes and our own capabilities.
3. Our business is exportable. There is at least as much potential in other markets as there is in the United States.
4. The casual footwear market is potentially bigger than sports and fitness.

In short, the opportunities are abundant. Our challenge is to select the most promising areas and leverage the strengths we have worked so hard to establish. I feel confident that our team can do that.

*Philip H. Knight*

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





*NIKE has one goal: to produce the best products possible. To accomplish this goal, NIKE attacks each category with innovation and creativity, which at times means taking risks. We believe by taking risks and accepting new challenges, our company produces more technologically advanced and exciting products than any of our competitors.*



*Our strategy is working: fiscal 1989 was the best year in our company's history with revenues of \$1.7 billion and earnings of \$167 million. At the heart of NIKE's success are our committed employees whose dedication and hard work are the envy of the industry. The athletic segments that comprise the core of our business—Basketball, Cross-Training and Running—had an outstanding year. Our specialty areas are growing rapidly, offering expansion into exciting new segments.*



*A "collections" approach has allowed us to effectively market cross-all footwear, apparel and accessories, reinforcing our position as the top performance athletic company. Our marketing and advertising efforts continue to push NIKE products to new levels of popularity and success.*

*Basketball, our largest category, had a tremendous year: \$415 million in revenues, an increase of 44% from 1988. With powerful advertising using top professional athletes such as Michael Jordan and Charles Barkley,*



*our exceptional Flight and Force Collections, technically superior products such as the Air Provisor and Air Jordan, and knowledgeable sales representatives, NIKE will continue to dominate this category. And NIKE is leading women's basketball into the future with an entire line of shoes designed expressly for women.*

NIKE's extraordinary research and development team is a primary reason why we are on the cutting edge of technological footwear design. The NIKE Sport Research Lab studies all functions and forms of athletic activity, providing vital information for shoe design and construction. Historically, NIKE has always been on the forefront of technical advancements—from the Waffle® outsole and cushioned midsole to the AIR-SOLE® and Webber Stability System, a support construction found in our Cross-Training shoes.



NIKE introduced Cross-Training as a fitness category in 1986, and now holds a 70% market share in this growing category. Our technically superior shoes, like the Air Trainer® SC, get worldwide visibility from athletes such as Bo Jackson. Now the second largest footwear category, Cross-Training had a phenomenal fiscal '89: \$238 million in revenues, an increase of 84% from 1988. Our Cross-Training apparel is responsive and performance-driven as well, with innovative designs and revolutionary fabrications.



NIKE continues to provide strong promotional and support programs, especially for our fitness category. Our successful Instructor Discount Program (IDP) witnessed tremendous growth. Other programs helped us to strengthen our position, including the NIKE Body Elites, a program honoring the best in the fitness field, and NIKE Network, an educational program for fitness professionals. With superior products, such as the Air Elite, and exceptional support programs, NIKE aims to take over the number one position in Fitness.





*NIKE's collection approach is key for cross-selling products. A collection brings together performance footwear, apparel and accessories for a single sport, offering athletes a complete line of products for their workout, and offering retailers a powerful in-store sales presentation. NIKE's collections include Elite in Aerobics, Flight and Force in Basketball, Cross-Training, All Conditions Gear (ACG) in Outdoor Cross-Training, NIKE International in Running, Challenge Court in Tennis, and for Spring 1990, Aqua Gear in Water Sports.*



*The NIKE International Collection in Running is one of our most successful collections. With sleek, lightweight designs, NIKE International apparel is the choice of many top track and field athletes.*



*Our Running shoes continue to dominate their category with highly technical designs such as the Air Stab, Air Max<sup>®</sup> Light, Air Fine and top-selling Air Pegasus. Our 43% market share in the category is nearly double our nearest competitor. \$203 million in revenues, a 14% annual increase for fiscal '89, solidifies NIKE's position in the running market.*



*At the 1988 Summer Olympics, 40% of the U.S. Track and Field team members wore NIKE sponsored athletic. Athletes such as Barb Reynolds, 400-meter world record holder and gold and silver medalist, and Lisa Martin, silver medalist in the marathon, bronze medalist and team medalist wearing NIKE products. NIKE continues to support world-class athletes in all track and field sports in countries around the globe.*

*NIKE strives to be the leading athletic apparel company in the world. Our apparel division had a great year with \$208 million in revenues, up 46% from 1988. We design and produce highly technical apparel for a wide range*



*of athletic activities. Following similar technical performance techniques as footwear designers, NIKE apparel designers create unique and distinct styles reflecting the spirit of each sport. NIKE's apparel is made from state-of-the-art fabrics and meets the needs of the most serious, competitive athletes—from Olympic gold medalists to Grand Slam tennis champions.*

*As the category with the most growth potential, Tennis is gaining new strength with the highly technical designs, bright, neon colors and NIKE denim of the Challenge Court Collection of apparel and footwear. Our marketing and sales professionals work with designers and developers to create and define the direction of a sport segment such as the Tennis line. With an athlete like Andre Agassi, one of today's most exciting young players, NIKE's investment in the Tennis category reflects his spirit.*



*The excitement of NIKE's new Tech Challenge series has our spring '89 tennis shoes selling out at retailers across the country, with our fall line promising the same success. The category's total revenues were \$58 million for fiscal '89, with the Air Tech Challenge and Air Challenge Court leading the way.*



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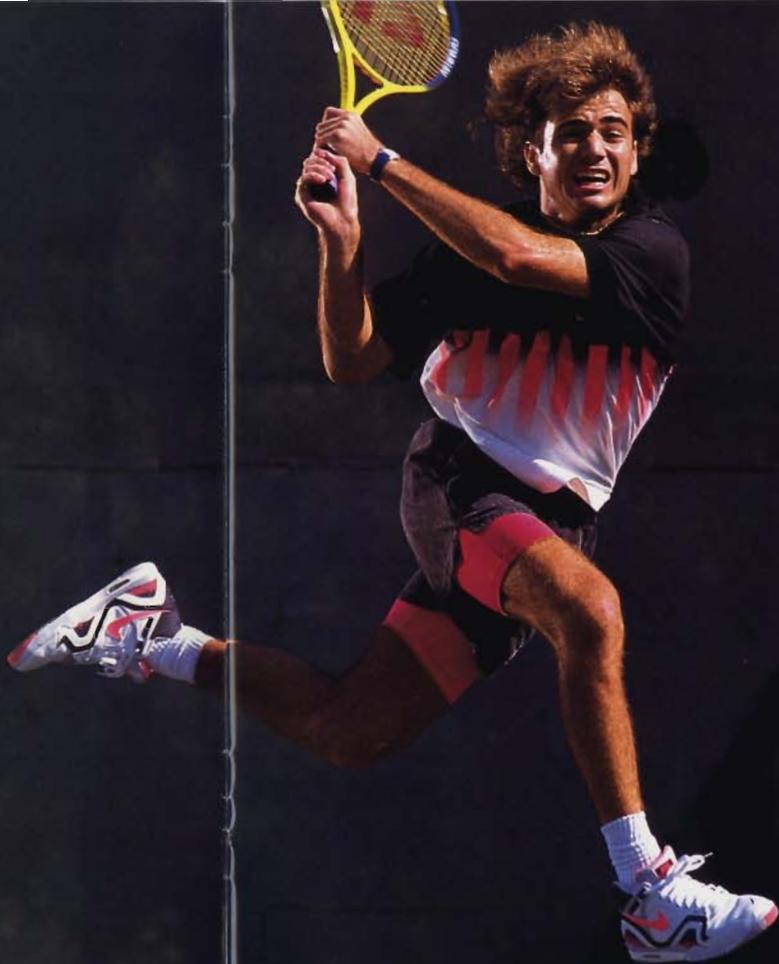


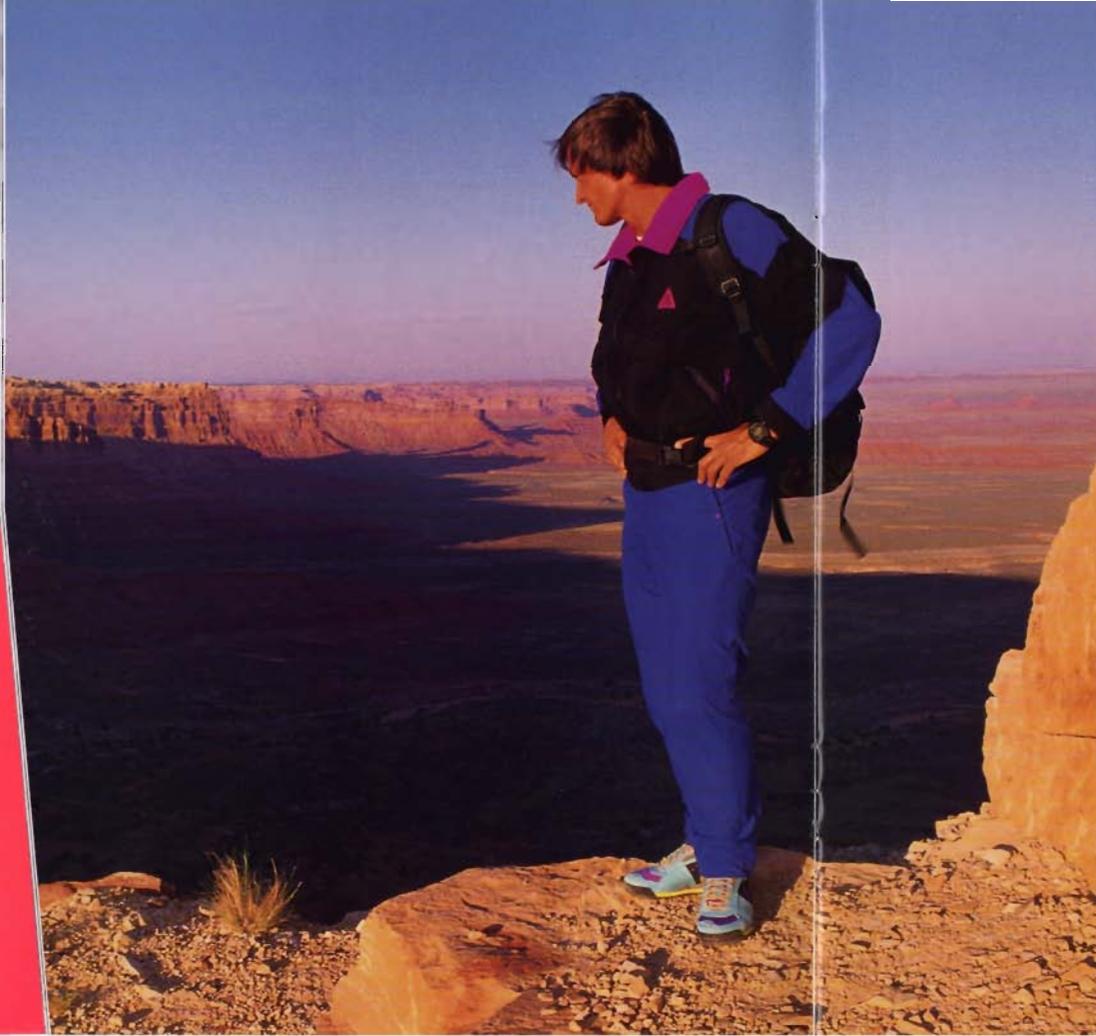
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*NIKE's specialty sports experienced unprecedented growth during fiscal '89. Leading the way is our Walking category, one of the most rapidly growing categories at NIKE. We are instrumental in publicizing the benefits of walking and NIKE Walking products by sponsoring walking clubs across the U.S.*

*Our new All Conditions Gear (ACG) Collection was developed with help from a team of outdoor sports experts. This exceptional apparel line provides the protection and warmth needed for outdoor activities. Hiking products continue to set new standards in design and function.*



*And our Aqua Sock leads the Water Sports category, changing the style and purpose of aquatic and beach footwear.*



*Other areas of growth are Cycling and Golf—two sports that are more popular than ever before. Our other cleated shoes maintained excellent levels of business as well. Soccer, Football, Baseball and Softball continue to be popular team sports, with NIKE's Team Socks programs dominating the field. Many top professional athletes wear NIKE cleated shoes, reinforcing our authentic athletic image.*

*The children's market continues to offer excellent growth. NIKE was the first athletic footwear company to create and design a line of technical performance shoes just for kids. Many of the shoes come with a Durability Protection Plan, a guarantee that the shoe will be replaced before it wears out.*



*It was another successful year for the NIKE International division: foreign revenues climbed to \$349 million as worldwide demand for NIKE brand products escalated. NIKE opens distributors in Canada, France, Germany, Norway, Sweden and the United Kingdom. During 1989, NIKE added Italy and Denmark as NIKE-owned distributors. In addition, NIKE sells in approximately 50 other countries through independent distributors and licensees.*



*Our strong sales force, management team and consistent authentic athletic image contributed to the great performance.*

*Trade shows were important to NIKE's success around the world. Our products received enthusiastic reviews whenever they were shown, including major trade shows in Germany and Thailand. Our international growth is expected to continue upward, allowing NIKE solid positioning as a global leader, in addition to being a domestic leader.*



*Europe had a phenomenal year due to increased demand, especially in the United Kingdom and Germany. Our Pacific and Asian operations are growing as well, with special attention to cross-selling footwear and apparel. In Canada, the cross-training movement is sweeping the country with NIKE products experiencing unmatched sales. In Latin America, we opened a new office in Sao Paulo, Brazil, allowing us to upgrade our quality standards in the region. We will continue to focus on international growth in the years to come.*



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*With the successful acquisition and integration of Cole Haan, an upscale, dress and casual footwear company, NIKE has the expertise to build an entire spectrum of quality footwear brands, ranging from athletic to dress.*

*Cole Haan had an excellent fiscal year, showing continued growth and improved profitability. Revenues reached \$87 million, up 34% from last year. Just as NIKE athletic products form a collection, Cole Haan products form six different lifestyle collections offering consumers a wide selection of footwear: Country, Sporting, Classic, Dress, Formal and Business. With a high-quality image, supported by powerful advertising, Cole Haan promises to follow a path consistent with NIKE's standards.*



*Introduced in 1988, i.e., a women's sportycasual footwear line, reflects NIKE's athletic heritage while offering a casual, fashion appeal. In addition, NIKE is introducing Stee 1, a sportycasual line for teenage and young women, for this Fall '89 back-to-school season. An exciting year is expected to follow for both these lines, with innovative styles, creative advertising and strong sales support.*



*Since starting our business over twenty years ago, NIKE has followed a consistent strategy of innovation, creativity, diversification and aggressive marketing. As we enter the next decade, NIKE will continue to use this strategy to expand our own athletic business and explore new market segments that offer additional growth potential.*

## HIGHLIGHTS

### Selected Financial Data

	1989	1988	1987	1986	1985
	<i>(in thousands, except per share data)</i>				
<b>Year Ended May 31:</b>					
Revenues	\$1,710,803	\$1,203,440	\$877,357	\$1,069,222	\$946,371
Net income	167,047	101,695	35,879	59,211	10,270
Net income per common share	4.45	2.70	.93	1.55	.27
Cash dividends declared per common share	.55	.40	.40	.40	.40
<b>At May 31:</b>					
Working capital	\$422,478	\$298,816	\$325,200	\$278,784	\$217,849
Total assets	825,410	709,095	511,843	476,838	503,966
Long-term debt	34,051	30,306	35,202	15,300	7,573
Redeemable Preferred Stock	300	300	300	300	300
Common shareholders' equity	\$61,804	\$411,774	\$338,017	\$316,846	\$271,668

### Selected Quarterly Financial Data

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1989	1988	1989	1988	1989	1988	1989	1988
	<i>(in thousands, except per share data)</i>							
Revenues	\$510,686	\$282,828	\$322,033	\$234,408	\$464,663	\$331,787	\$413,421	\$354,417
Gross profit	185,536	95,402	116,922	70,943	171,739	106,397	161,775	127,318
Net income	56,986	25,081	24,775	18,547	48,828	27,599	36,458	30,468
Net income per common share	1.52	.65	.66	.50	1.30	.74	.97	.81
Dividends declared per common share	.10	.10	.15	.10	.15	.10	.15	.10
Price range of common stock								
High	29%	22%	34%	24%	33%	23	39%	26½
Low	23%	16%	24%	14	24%	14%	29%	21%

The Company's Class B Common Stock is traded in the NASDAQ National Market System under the NASDAQ symbol NIKE. At May 31, 1989, there were 33 security dealers making a market in the stock and there were approximately 3,900 shareholders of record.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Highlights

\* Consolidated revenues exceeded \$1.7 billion, a 42% improvement over the Company's previous high achieved in 1988 and a 95% increase over 1987.

\* Consolidated net income of \$167 million or \$4.45 per share represents record earnings for the second consecutive year, an increase of 64% over 1988 net income of \$101.7 million or \$2.70 per share and a 365% increase over 1987 net income of \$35.9 million or \$.93 per share.

### Results of Operations

Increased revenues and improved gross margins highlighted the earnings growth in 1989. Domestic footwear shipments in 1989 rose 12% over the previous year, while the average sales price per pair increased 23%. The increase in sales price is attributable to a larger percentage of sales of high-end products and to a general increase in prices resulting from higher production costs. Domestic apparel revenues rose 46% over the previous year primarily because of increased product demand. Foreign revenue growth resulted from increased product demand partially offset by the translation effect of a stronger U.S. dollar. The approximate breakdown of revenues by product category that follows contains certain amounts restated to conform with 1989 classifications:

	Year Ended May 31,		
	1989	1988	1987
	<i>(in thousands)</i>		
<b>Footwear</b>			
Basketball	\$ 414,600	\$ 287,300	\$178,000
Fitness	237,800	129,000	92,500
Running	202,600	177,900	123,800
Racquet	58,400	60,700	38,500
Other	153,200	102,600	77,200
Non-athletic	87,300	—	—
Total footwear	1,153,900	757,500	510,000
<b>Apparel</b>			
Athletic equipment	208,200	142,900	130,700
	—	—	900
Total United States	1,362,100	900,400	641,600
<b>Foreign</b>			
Europe	241,400	233,400	191,400
Canada	52,200	31,500	20,300
Other	55,100	38,100	24,100
Total foreign	348,700	303,000	235,800
Total NIKE	\$1,710,800	\$1,203,400	\$877,400

Gross margin improvement was primarily attributable to increased sales of higher margin products, increased management focus on improving product margins and inventory management. Fiscal 1988 earnings were also characterized by increased revenues and an improved margin, as well as a lower effective tax rate and revenue from other sources. In fiscal 1987, net income declined primarily due to decreased revenues caused by reduced quantities sold.

Selling and administrative expenses in 1989 exceeded those in each of the previous two years due to increases in sales volume related expenses and in advertising. Total selling and administrative expenses as a percentage of revenues were 20.7% compared to 20.5% in 1988 and 23.3% in 1987.

The funding of the acquisition of Cole Haan and construction of the Company's world headquarters building resulted in an increase in interest expense in 1989 and a reduction of interest income. Interest income is included in other

income and separately disclosed in Note 12 of the financial statements. In 1988 and 1987, interest income increased due to an increased investment of cash in short-term instruments. Included as other income in 1988 is \$9.3 million of interest income and \$14 million received from the U.S. Government in settlement of litigation related to U.S. Customs duty, the latter increasing earnings per share by \$.23. Other income in 1987 included a \$3.7 million non-taxable gain partially offset by profit sharing expense and by the loss on disposition of two subsidiaries.

As a result of the Tax Reform Act of 1986, the Company's effective income tax rate for fiscal 1989 was 38% compared to 39% in 1988 and 51% in 1987. The tax rate exceeds the top statutory federal rate primarily due to state income taxes.

"Futures" orders booked for domestic delivery of footwear from June through November 1989 are approximately 9% higher in units and 23% higher in dollars than such orders booked in the comparable period of the prior year.

"Futures" orders received are not necessarily indicative of total revenues for subsequent periods because: (1) the mix of "futures" and "at once" shipments may vary significantly from quarter to quarter and from year to year, and (2) they do not include orders for U.S. apparel, Cole Haan or for foreign operations, areas which management feels represent significant growth opportunities.

#### *Liquidity and Capital Resources*

The Company's financial condition remains strong. Assets at May 31, 1989 total \$825 million, up from \$709 million at the end of the previous year. Cash and equivalents at May 31, 1989 totalled \$86 million, compared to \$75 million at May 31, 1988. Working capital at May 31, 1989 was \$124 million more than the previous year, a 41% rise, primarily because of increases in accounts receivable and inventory and a decrease in notes payable. The current ratio at May 31, 1989 was 3.0:1 compared to 2.2:1 at May 31, 1988.

The increase in inventory over the previous year is attributable to a higher footwear average unit cost and to an increased level of apparel and foreign inventories. Footwear quantities at May 31, 1989 are comparable to the quantities on hand at May 31, 1988. Inventory turned 5.1 times in 1989 compared to 5.0 times in 1988. Accounts receivable have increased in proportion to 1989 revenue growth and notes payable have decreased because of cash generated by operations.

Capital expenditures for 1989 aggregated \$42 million. They are primarily attributable to the construction of a new world headquarters facility, the acquisition of the formerly leased eastern regional distribution facility, and electronic data processing equipment purchases. In 1988 and 1987, capital expenditures were \$25 million and \$12 million respectively. A significant portion of the 1988 expenditures were related to the construction of a new western regional distribution facility. Construction of the Company's new world headquarters building, which began in the fall of 1988, is being financed internally. This structure will be used to consolidate offices now occupying seven leased facilities, and it will cost an estimated \$70 million. To date, the Company has expended \$22 million on the project and there are current construction commitments of approximately \$20 million. The Company has little invested in manufacturing plant and equipment because most of the manufacturing of NIKE products is done on a contract basis through independent factories.

The quarterly cash dividend of \$.10 per share, initially declared in February 1984, was increased to \$.15 in the second quarter of 1989. Dividends were declared in all four quarters during fiscal 1989. Based upon currently projected earnings and cash flow requirements, the Company anticipates continuing a dividend.

During 1989, the Company received ratings from Standard and Poor's Corporation and from Moody's Investors Service for a \$100 million commercial paper program which was unused at May 31, 1989. The program was rated A2 by Standard and Poor's and P2 by Moody's. At May 31, 1989, the Company has \$117 million in committed unused lines of credit available on its multiple option facility and revolving credit agreements. See note 6 of the Consolidated Financial Statements for further details concerning the Company's short-term borrowings. In May 1988, the Company borrowed

\$85 million from available credit lines to help fund the acquisition of Cole Haan. NIKE's ratio of debt to equity at May 31, 1989 is .5:1 compared to .7:1 at May 31, 1988 and .5:1 at May 31, 1987. Management believes that funds generated by operations, together with currently available resources, will adequately finance 1990 working capital expenditures.

#### *FINANCIAL REPORTING*

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 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 10, 1989*

*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 cash flows and of shareholders' equity present fairly, in all material respects, the financial position of NIKE, Inc. and its subsidiaries at May 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 1989, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*Pricewaterhouse*

NIKE, INC.  
 CONSOLIDATED STATEMENT OF INCOME (in thousands, except per share data)

	Year Ended May 31,		
	1989	1988	1987
Revenues	\$1,710,803	\$1,203,440	\$877,357
Costs and expenses:			
Cost of sales	1,074,831	803,380	596,662
Selling and administrative	354,825	246,583	204,742
Interest (Notes 6 and 7)	13,949	8,004	8,475
Other (income) expense (Notes 4, 8, 11, and 12)	(3,449)	(20,722)	(6,201)
	<u>1,440,156</u>	<u>1,037,245</u>	<u>803,678</u>
Income before income taxes	270,647	166,195	73,679
Income taxes (Note 8)	103,600	64,500	37,800
Net income	<u>\$ 167,047</u>	<u>\$ 101,695</u>	<u>\$ 35,879</u>
Net income per common share (Note 1)	<u>\$ 4.45</u>	<u>\$ 2.70</u>	<u>\$ .93</u>
Average number of common and common equivalent shares (Note 1)	<u>37,572</u>	<u>37,639</u>	<u>38,393</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

NIKE, INC.  
 CONSOLIDATED BALANCE SHEET (in thousands)

	May 31,	
	1989	1988
<b>Assets</b>		
Current Assets:		
Cash and equivalents	\$ 85,749	\$ 75,357
Accounts receivable, less allowance for doubtful accounts of \$7,824 and \$6,164	296,350	258,393
Inventories (Note 2)	222,924	198,470
Deferred income taxes (Note 8)	18,504	8,569
Prepaid expenses	14,854	12,793
Total current assets	638,381	553,582
Property, plant and equipment (Notes 5 and 7)	154,314	112,022
Less accumulated depreciation	64,332	54,319
Goodwill (Notes 1 and 3)	89,982	57,703
Other assets	15,148	13,063
	<u>\$825,410</u>	<u>\$709,095</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Current portion of long-term debt (Note 7)	\$ 1,884	\$ 1,573
Notes payable to banks (Note 6)	39,170	135,215
Accounts payable (Note 6)	71,105	50,288
Accrued liabilities	76,543	59,073
Income taxes payable	27,201	8,617
Total current liabilities	215,903	254,766
Long-term debt (Note 7)	34,051	30,306
Non-current deferred income taxes and purchased tax benefits (Note 8)	13,352	11,949
Commitments and contingencies (Note 13)	—	—
Redeemable Preferred Stock (Note 9)	300	300
Shareholders' equity (Note 10):		
Common Stock at stated value:		
Class A convertible—14,295 and 14,453 shares outstanding	171	173
Class B—23,004 and 22,650 shares outstanding	2,700	2,696
Capital in excess of stated value	74,227	69,737
Foreign currency translation adjustment	(2,156)	(1,157)
Retained earnings	486,862	340,325
	<u>561,804</u>	<u>411,774</u>
	<u>\$825,410</u>	<u>\$709,095</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

**NIKE, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS** (in thousands)

	Year Ended May 31,		
	1989	1988	1987
Cash provided (used) by operations:			
Net income	\$ 167,047	\$ 101,695	\$ 35,879
Income charges (credits) not affecting cash:			
Depreciation	14,775	14,020	12,078
Deferred income taxes and purchased tax benefits	(8,532)	(211)	8,486
Other	3,752	432	2,494
Changes in certain working capital components:			
(Increase) decrease in inventory	(24,454)	(60,082)	59,542
(Increase) decrease in accounts receivable	(37,957)	(64,187)	1,174
(Increase) decrease in other current assets	(2,061)	(5,624)	4,331
Increase in accounts payable, accrued liabilities and income taxes payable	56,871	32,976	8,462
Cash provided by operations	169,441	19,019	132,446
Cash provided (used) by investing activities:			
Additions to property, plant and equipment	(42,022)	(25,513)	(11,874)
Disposals of property, plant and equipment	2,565	8,863	1,728
Acquisition of Cole Haan:			
Goodwill	—	(82,044)	—
Net assets acquired	—	(13,086)	—
Additions to other assets	(1,014)	(1,445)	(930)
Cash used by investing activities	(40,471)	(113,225)	(11,076)
Cash provided (used) by financing activities:			
Additions to long-term debt	—	12	30,332
Reductions in long-term debt including current portion	(4,019)	(11,693)	(10,678)
Increase (decrease) in notes payable to banks	(96,045)	82,185	(18,489)
Proceeds from exercise of options	2,517	2,262	1,911
Issuance of common stock	—	5,813	—
Dividends—common and preferred	(20,510)	(14,904)	(15,188)
Purchase and retirement of common stock	—	(21,890)	—
Cash (used) provided by financing activities	(118,057)	41,785	(12,112)
Effect of exchange rate changes on cash	(521)	911	(529)
Net increase (decrease) in cash and equivalents	10,392	(51,510)	108,729
Cash and equivalents, beginning of year	75,357	126,867	18,138
Cash and equivalents, end of year	\$ 85,749	\$ 75,357	\$ 126,867

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest (net of amount capitalized)	\$ 14,700	\$ 9,300	\$ 7,100
Income taxes	90,700	65,800	15,700

Supplemental schedule of noncash investing and financing activities:

During August 1988 the Company purchased its eastern distribution facility which previously was under lease. In conjunction with the purchase, long-term liabilities were assumed as follows:

Cost of eastern distribution facility	\$ 9,519
Cash paid	(1,444)
Long-term liabilities assumed	\$ 8,075

The accompanying notes to consolidated financial statements are an integral part of this statement.

**NIKE, INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY** (in thousands)

	Common Stock				Capital In Excess of Stated Value	Foreign Currency Translation Adjustment	Retained Earnings	Total
	Class A		Class B					
	Shares	Amount	Shares	Amount				
Balance at May 31, 1986	15,051	\$ 180	22,721	\$ 2,697	\$ 81,633	\$ (507)	\$ 232,843	\$ 316,846
Stock options exercised			166	2	1,909			1,911
Conversion to Class B Common Stock	(453)	(6)	453	6				—
Translation of statements of foreign operations						(1,431)		(1,431)
Net income—year ended May 31, 1987							35,879	35,879
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(15,158)	(15,158)
Balance at May 31, 1987	14,598	174	23,340	2,705	83,542	(1,938)	253,534	338,017
Stock options exercised	174	2	109	1	2,259			2,262
Conversion to Class B Common Stock	(319)	(3)	319	3				—
Translation of statements of foreign operations						781		781
Net income—year ended May 31, 1988							101,695	101,695
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(14,874)	(14,874)
Purchase and retirement of common stock					(1,362)	(16)	(21,874)	(21,890)
Issuance of Common Stock			244	3	5,810			5,813
Balance at May 31, 1988	14,453	173	22,650	2,696	69,737	(1,157)	340,325	411,774
Stock options exercised	30	—	166	2	4,490			4,492
Conversion to Class B Common Stock	(188)	(2)	188	2				—
Translation of statements of foreign operations						(999)		(999)
Net income—year ended May 31, 1989							167,047	167,047
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(20,480)	(20,480)
Balance at May 31, 1989	14,295	\$ 171	23,004	\$ 2,700	\$ 74,227	\$ (2,156)	\$ 486,862	\$ 561,804

The accompanying notes to consolidated financial statements are an integral part of this statement.

NIKE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of significant accounting policies:

Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. 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 plus fees earned on sales by licensees.

Cash and equivalents:

Cash and equivalents represent cash and short-term, highly liquid investments with maturities of essentially three months or less.

Inventory valuation:

Inventories are stated at the lower of cost or market. Cost is determined using the last-in first-out (LIFO) method for substantially all inventories.

Property, plant and equipment and depreciation:

Property, plant and equipment are recorded at cost. 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:

At May 31, 1989 the Company's excess of purchase cost over the fair value of net assets of businesses acquired was \$81,899,000, net of amortization of \$5,533,000. This excess is being amortized on a straight-line basis over periods of eight and forty years.

Foreign currency translation:

Assets and liabilities of foreign operations are translated into U.S. dollars at current exchange rates. Income and expense accounts are translated into U.S. dollars at average rates of exchange prevailing during the period. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are taken directly to a separate component of shareholders' equity. Foreign currency transaction gains and losses are included in income.

Forward exchange contracts:

The Company enters into forward exchange contracts in order to reduce the impact of foreign currency fluctuations on primarily non-U.S. purchases of inventory. Gains or losses on these transactions are matched to inventory purchases and charged or credited to cost of sales as such inventory is sold.

Income taxes:

Deferred income taxes are recognized for timing differences between income for financial reporting purposes and taxable income. Income taxes are provided currently on earnings of foreign subsidiaries expected to be repatriated.

In December 1987 and 1988, the Financial Accounting Standards Board issued new standards on accounting for income taxes which require the use of the liability method for computing deferred income taxes. One of the principal differences from the deferred method used in these financial statements is that changes in tax rates and laws will be reflected in income from continuing operations in the period such changes are enacted; whereas under the deferred method such changes were reflected over time, if at all. The Company plans to adopt this statement in fiscal 1991, as permitted under the transition rules, but has not yet quantified the effect adoption will have on the consolidated financial statements.

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 reported.

Note 2 — Inventories:

Inventories by major classification are as follows:

	May 31,	
	1989	1988
	(in thousands)	
Finished goods	\$216,033	\$194,263
Work-in-process	4,708	2,523
Raw materials	2,183	1,684
	<u>\$222,924</u>	<u>\$198,470</u>

The excess of replacement cost over LIFO cost approximated \$19,264,000 at May 31, 1989 and \$14,792,000 at May 31, 1988. During 1989, 1988 and 1987, certain inventory quantities were reduced resulting in liquidations of LIFO inventory quantities carried at different costs prevailing in prior years as compared with the cost of 1989, 1988 and 1987 purchases. For the years ended May 31, 1989, 1988 and 1987 the liquidation of LIFO inventory quantities resulted in an increase (decrease) to cost of sales of approximately (\$359,000), (\$769,000) and \$1,432,000 and to earnings per share of \$.01, \$.01 and (\$.02) respectively.

Note 3 — Acquisition of Cole Haan Holdings, Inc.:

On May 24, 1988, NIKE acquired substantially all the stock of Cole Haan Holdings, Inc. (Cole Haan) and its subsidiaries. Cole Haan is a leading designer and marketer of high quality casual and dress shoes. The acquisition was accounted for using the purchase method of accounting. The purchase price was \$80 million plus repayment of debt of \$15 million. The Company paid for the purchase with \$89.2 million in cash and by issuing 243,713 shares of NIKE stock, with a market value of \$5.8 million, for the remainder.

Cole Haan's assets and liabilities have been recorded in the Company's consolidated balance sheet at their fair values at the acquisition date. At May 31, 1988, assets of the newly acquired company totalled \$35 million, exclusive of goodwill. Since Cole Haan was acquired so close to NIKE's fiscal year end, its operating results for the few days of NIKE ownership were not material and are not included in the Company's 1988 consolidated statement of income. The excess of cost over the fair value of net assets acquired totalled approximately \$82 million and has been accounted for as goodwill, which is being amortized over forty years.

The following unaudited combined pro forma information shows the results of the Company's operations as though the acquisition had occurred on June 1, 1987 and 1986:

	1988	1987
Revenues (in thousands)	\$1,268,430	\$924,461
Net income (in thousands)	\$99,299	\$34,220
Earnings per share	\$2.64	\$3.89

The pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred had the purchase been made at the beginning of the respective periods, or of results which may occur in the future.

Note 4 — Customs Settlements:

During 1988, the Company settled a customs duty dispute with the U.S. Government relating to valuation methods used for certain NIKE imports from 1979 to 1981. This settlement resulted in a refund of duties and interest to the Company of approximately \$14 million. The settlement proceeds are included in other income in the consolidated financial statements for the year ended May 31, 1988.

**Note 5 — Property, plant and equipment:**

Property, plant and equipment includes the following:

	May 31,	
	1989	1988
	<i>(in thousands)</i>	
Land	\$ 10,829	\$ 9,245
Buildings	19,272	13,412
Machinery and equipment	90,752	79,258
Leasehold improvements	10,275	8,836
Construction in process	23,186	1,271
	<u>154,314</u>	<u>112,022</u>
Less accumulated depreciation	64,332	54,319
	<u>\$ 89,982</u>	<u>\$ 57,703</u>

**Note 6 — Short-term borrowings and credit lines:**

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

	Banks				NIAC	
	Domestic Operations		Foreign Operations		Borrowings	Interest Rate
	Borrowings	Interest Rate	Borrowings	Interest Rate		
	<i>(in thousands)</i>					
May 31, 1989	\$12,606	9½%	\$26,564	9¾%	\$25,204	11.0%
May 31, 1988	\$94,885	7¼%	\$40,330	7¼%	\$20,404	8¼%

At May 31, 1989, NIKE had no outstanding borrowings under its \$100 million unsecured multiple option facility with nine banks. There was \$25 million in outstanding borrowings under this agreement at May 31, 1988. This agreement contains optional borrowing alternatives consisting of a committed revolving loan facility, an uncommitted short-term advance facility and an uncommitted euronote 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 LIBOR plus ½%. The agreement provides for annual fees of .15% of the total commitment plus fees based upon usage under the committed revolving loan facility. Under the agreement, the Company must maintain, among other things, certain minimum specified financial ratios and balances. A domestic subsidiary has \$25 million in separate unsecured revolving credit agreements of which \$7,606,000 was outstanding at May 31, 1989. This subsidiary had \$9,885,000 outstanding under a similar secured agreement at May 31, 1988. Total domestic borrowings also included \$5 million and \$60 million at May 31, 1989 and 1988, respectively, under unsecured, uncommitted short-term credit facilities with several banks.

During 1989, the Company received approval and ratings to issue up to \$100 million in commercial paper which is required to be supported by committed or uncommitted lines of credit. At May 31, 1989, there were no amounts outstanding under this arrangement.

The Company has outstanding loans at interest rates at various spreads above the banks' cost of funds for financing foreign operations.

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 ½%.

**Note 7 — Long-term debt:**

Long-term debt includes the following:

	May 31,	
	1989	1988
	<i>(in thousands)</i>	
8.45% unsecured term loan, due July 1993	\$25,000	\$25,000
8.25% capital equipment purchase agreement payable in installments through 1991	1,870	2,639
8.0%-8.8% industrial revenue bonds, secured by certain real estate	—	1,661
14% assumed loan, secured by certain real estate, due in installments through February 1991	2,482	—
12.25% assumed loan, secured by certain real estate, due in installments through February 1991	5,303	—
Other	1,280	2,559
Total	35,935	31,879
Less current maturities	1,884	1,573
	<u>\$34,051</u>	<u>\$30,306</u>

The \$25 million term loan 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.

Amounts of long-term maturities in each of the five fiscal years 1990 through 1994, respectively, are \$1,884,000, \$8,822,000, \$146,000, \$8,000, and \$25,075,000.

**Note 8 — Income taxes:**

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

	Year Ended May 31,		
	1989	1988	1987
	<i>(in thousands)</i>		
Income before income taxes:			
United States	\$207,815	\$124,519	\$44,315
Foreign	62,832	41,676	29,364
	<u>\$270,647</u>	<u>\$166,195</u>	<u>\$73,679</u>
Provision for income taxes:			
Current:			
United States			
Federal	\$ 72,785	\$ 43,830	\$16,172
State	15,720	8,296	3,702
Foreign	19,499	14,019	6,030
	108,004	66,145	25,904
Deferred:			
United States			
Federal	(2,663)	(1,583)	11,910
State	(788)	(265)	(120)
Foreign	(953)	203	106
	(4,404)	(1,645)	11,896
	<u>\$103,600</u>	<u>\$ 64,500</u>	<u>\$37,800</u>

*Note 5 — Property, plant and equipment:*

Property, plant and equipment includes the following:

	May 31,	
	1989	1988
	<i>(in thousands)</i>	
Land	\$ 10,829	\$ 9,245
Buildings	19,272	13,412
Machinery and equipment	90,752	79,258
Leasehold improvements	10,275	8,836
Construction in process	23,186	1,271
	<u>154,314</u>	<u>112,022</u>
Less accumulated depreciation	64,352	54,319
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May 31, 1988	\$94,885	7¼%	\$40,330	7¼%	\$20,404	8¼%

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During 1989, the Company received approval and ratings to issue up to \$100 million in commercial paper which is required to be supported by committed or uncommitted lines of credit. At May 31, 1989, there were no amounts outstanding under this arrangement.

The Company has outstanding loans at interest rates at various spreads above the banks' cost of funds for financing foreign operations.

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 ½%.

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Long-term debt includes the following:

	May 31,	
	1989	1988
	<i>(in thousands)</i>	
8.45% unsecured term loan, due July 1993	\$25,000	\$25,000
8.25% capital equipment purchase agreement payable in installments through 1991	1,870	2,639
8.0%-8.8% industrial revenue bonds, secured by certain real estate	—	1,661
14% assumed loan, secured by certain real estate, due in installments through February 1991	2,482	—
12.25% assumed loan, secured by certain real estate, due in installments through February 1991	5,303	—
Other	1,280	2,559
Total	35,935	31,879
Less current maturities	1,884	1,573
	<u>\$34,051</u>	<u>\$30,306</u>

The \$25 million term loan 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.

Amounts of long-term maturities in each of the five fiscal years 1990 through 1994, respectively, are \$1,884,000, \$8,822,000, \$146,000, \$8,000, and \$25,075,000.

*Note 8 — Income taxes:*

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

	Year Ended May 31,		
	1989	1988	1987
	<i>(in thousands)</i>		
Income before income taxes:			
United States	\$207,815	\$124,519	\$44,315
Foreign	62,832	41,676	29,364
	<u>\$270,647</u>	<u>\$166,195</u>	<u>\$73,679</u>
Provision for income taxes:			
Current:			
United States			
Federal	\$ 72,785	\$ 43,830	\$16,172
State	15,720	8,296	3,702
Foreign	19,499	14,019	6,030
	108,004	66,145	25,904
Deferred:			
United States			
Federal	(2,663)	(1,583)	11,910
State	(788)	(265)	(120)
Foreign	(953)	203	106
	(4,404)	(1,645)	11,896
	<u>\$103,600</u>	<u>\$ 64,500</u>	<u>\$37,800</u>

As of May 31, 1989 the Company has utilized all foreign tax credits.

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

	Year Ended May 31,		
	1989	1988 <i>(in thousands)</i>	1987
Inventory adjustment to market	\$ 130	\$ 1,907	\$(1,310)
Reserves and accrued liabilities	(1,754)	756	—
Tax basis adjustments to inventory	(2,236)	(2,050)	—
Purchased tax benefits	(362)	(293)	4,311
Deferred compensation	(1,735)	(644)	622
Barter credits	1,120	(1,583)	(491)
Undistributed earnings of foreign subsidiaries	1,784	258	8,087
Bad debts	(915)	(36)	(411)
Other, net	(436)	40	1088
	<u>\$(4,404)</u>	<u>\$(1,645)</u>	<u>\$11,896</u>

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate follows:

	Year Ended May 31,		
	1989	1988 <i>(in thousands)</i>	1987
U.S. Federal statutory rate	34.0%	35.0%	46.0%
State income taxes, net of federal benefit	3.6	3.3	2.4
Recalculation of purchased tax benefit liability	—	—	(2.3)
Tax impact of foreign losses	—	(1.7)	.8
Taxes on foreign earnings	—	—	1.0
Other, net	.7	2.2	3.4
Effective income tax rate	<u>38.3%</u>	<u>38.8%</u>	<u>51.3%</u>

During 1982, the Company purchased future tax benefits for \$15,277,000. Tax benefits of \$8,136,000 in excess of the purchase price have been recognized as of May 31, 1989 and are classified as a long-term liability. In Fiscal 1987, the Company recognized \$3,700,000 in non-taxable other income as a result of recalculating the effect of the 1986 Tax Reform Act on its purchased tax benefit liability.

*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, 1989. 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.

*Note 10— Common Stock:*

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.

During fiscal 1988, NIKE purchased and retired 1,362,100 shares of its own common stock at a total cost of \$21.9 million.

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, 1989:

	Shares <i>(in thousands)</i>	Option Price Per Share (\$)
Options outstanding May 31, 1987:	442	9.50 to 19.75
Exercised	(93)	9.50 to 19.75
Surrendered	(41)	9.50 to 21.25
Granted	<u>91</u>	<u>17.06 to 22.19</u>
Options outstanding May 31, 1988:	399	9.50 to 22.19
Exercised	(144)	9.50 to 22.19
Surrendered	(18)	9.50 to 21.69
Granted	<u>209</u>	<u>21.12 to 39.31</u>
Options outstanding May 31, 1989:	<u>446</u>	<u>9.50 to 39.31</u>
Options exercisable at May 31:		
1989	150	9.50 to 22.06
1988	148	9.50 to 19.75

In addition to the Option Plan, the Company has several agreements outside of the Plan with certain directors and employees. As of May 31, 1989, 848,000 options with exercise prices ranging from \$.417 per share to \$25.00 per share had been granted. The aggregate compensation expense related to these agreements is \$4,521,000 and is being amortized over vesting periods from October 1980 through December 1993. These agreements expire from September 1993 through December 1998.

The following summarizes transactions outside the Option Plan for the two years ended May 31, 1989:

	Shares (in thousands)	Option Price Per Share (\$)
Options outstanding May 31, 1987:	378	.417 to 9.50
Exercised	(190)	.417 to 9.50
Surrendered	—	—
Granted	8	9.50
Options outstanding May 31, 1988:	196	.417 to 9.50
Exercised	(53)	.417 to 9.50
Surrendered	—	—
Granted	60	25.00
Options outstanding May 31, 1989:	203	.417 to 25.00
Options exercisable at May 31:		
1989	69	.417 to 9.50
1988	34	9.50

**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 \$4,700,000, \$3,000,000 and \$1,300,000 to the plan are included in other expense in the consolidated financial statements for the years ended May 31, 1989, 1988, and 1987.

**Note 12 — Interest income:**

Included in other income for the three years ended May 31, 1989, 1988, and 1987 is interest income of \$7,694,000, \$9,321,000, and \$7,230,000.

**Note 13 — Commitments and contingencies:**

The Company leases space for its offices, warehouses and retail stores under leases expiring from one to ten years after May 31, 1989. Rent expense aggregated \$12,179,000, \$11,605,000 and \$11,608,000 for the years ended May 31, 1989, 1988, and 1987 respectively. Amounts of minimum future annual rental commitments under non-cancellable operating leases in each of the five fiscal years 1990 through 1994 are \$12,996,000, \$9,754,000, \$8,762,000, \$7,838,000, \$8,651,000 and in aggregate \$78,284,000.

In the fall of 1988, the Company began construction of a new world headquarters facility. The expected cost of the facility including land, buildings and improvements is approximately \$70 million. The Company has expended \$22 million to date, and has construction commitments of approximately \$20 million as of May 31, 1989.

**Note 14 — Operations by geographic areas:**

The Company operates predominantly in one industry segment, that being the design, production and marketing of athletic and casual footwear, apparel and accessories. During 1989 and 1988, sales to one major customer amounted to 16% and 12% of total sales, respectively. In 1987, no single customer's sales exceeded 10% of total sales. Information about the Company's operations in the United States and foreign areas is presented below. Inter-geographic revenues and assets have been eliminated to arrive at the consolidated amounts. Expenses and assets not identifiable with the operations of a specific geographic segment have been listed separately:

	Year Ended May 31,		
	1989	1988	1987
	<i>(in thousands)</i>		
Revenues from unrelated entities:			
United States	\$ 1,362,148	\$ 900,417	\$ 641,603
Europe	241,380	233,402	191,358
Other foreign	107,275	69,621	44,396
	<u>\$ 1,710,803</u>	<u>\$ 1,203,440</u>	<u>\$ 877,357</u>
Inter-geographic revenues:			
United States	\$ 1,757	\$ 725	\$ 2,043
Europe	—	—	—
Other foreign	4,323	5,008	5,540
	<u>\$ 6,080</u>	<u>\$ 5,733</u>	<u>\$ 7,583</u>
Total revenues:			
United States	\$ 1,363,905	\$ 901,142	\$ 643,646
Europe	241,380	233,402	191,358
Other foreign	111,598	74,629	49,936
Less inter-geographic revenues	(6,080)	(5,733)	(7,583)
	<u>\$ 1,710,803</u>	<u>\$ 1,203,440</u>	<u>\$ 877,357</u>
Operating income:			
United States	\$ 230,156	\$ 114,046	\$ 48,755
Europe	35,376	37,036	27,529
Other foreign	30,173	13,075	2,723
Less corporate, interest and other income (expense) and eliminations	(25,058)	2,038	(5,328)
	<u>\$ 270,647</u>	<u>\$ 166,195</u>	<u>\$ 73,679</u>
Assets:			
United States	\$ 600,629	\$ 499,707	\$ 288,689
Europe	102,744	94,900	85,869
Other foreign	50,756	51,784	25,063
Total identifiable assets	754,129	646,391	399,621
Corporate cash and eliminations	71,281	62,704	112,222
Total assets	<u>\$ 825,410</u>	<u>\$ 709,095</u>	<u>\$ 511,843</u>

**DIRECTORS**

William J. Bowerman  
*Deputy Chairman of the Board of Directors  
and Senior Vice President, NIKE, Inc.  
Eugene, Oregon*

Jill K. Conway (2)  
*Visiting Scholar  
Massachusetts Institute of Technology  
Boston, Massachusetts*

Robert T. Davis (2) (3)  
*Professor of Marketing, Stanford University  
Palo Alto, California*

Ralph Denunzio (4)  
*President, Harbor Point Associates, Inc.  
New York, New York*

Richard K. Donahue (3)  
*Partner—Donahue & Donahue, Attorneys  
Lawell, Massachusetts*

Delbert J. Hayes (1) (4)  
*Executive Vice President, NIKE, Inc.  
Beaverton, Oregon*

Douglas G. Houser (2) (3)  
*Assistant Secretary, NIKE, Inc.  
Partner—Ballantyne, Houser, Bailey,  
Pendergast & Hoffmann, Attorneys  
Portland, Oregon*

John E. Jaqua (3)  
*Secretary, NIKE, Inc.  
Partner—Jaqua & Whisley, P.C.  
Attorneys  
Eugene, Oregon*

Philip H. Knight (1)  
*Chairman of the Board  
and Chief Executive Officer, NIKE, Inc.  
Beaverton, Oregon*

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

Charles W. Robinson (4)  
*Chairman, Robinson & Associates  
Santa Fe, New Mexico*

(1) Member—Executive Committee  
(2) Member—Audit Committee  
(3) Member—Personnel Committee  
(4) Member—Finance Committee

**OFFICERS**

Philip H. Knight  
*Chairman of the Board  
and Chief Executive Officer*

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*

Thomas E. Clarke  
*Vice President*

Nicholas C. Kartalis  
*Vice President*

Ronald E. Nelson  
*Vice President*

Mark G. Parker  
*Vice President*

George E. Porter  
*Vice President—Finance*

David B. Taylor  
*Vice President*

Dale N. Wahl  
*Treasurer*

John E. Jaqua  
*Secretary*

Lindsay D. Stewart  
*Assistant Secretary and Corporate Counsel*

A. Thomas Niebergall  
*Assistant Secretary*

**DIVISION  
VICE PRESIDENTS**

Alexander Bodecker

John M. de la Forese

Shelley K. Dewey

David W. Edwards

James T. Gorman

Bertrand Gailloche

Anders Hanson

David Kortkamp

Andrew Mooney

**CREATIVE  
DIRECTORS**

Tinker Hatfield  
*Footwear, Apparel and Accessories*

Bruce J. Kilgore  
*Advanced Products*

**LOCATIONS**

**Corporate Headquarters**  
3000 S.W. Marway Blvd.  
Beaverton, Oregon 97005

**United States Sales and Distribution Centers**  
8400 Windstar Blvd.  
Memphis, Tennessee 38138

27255 S.W. Bloomer Ferry Road  
Wilsonville, Oregon 97170

150 Ocean Road  
Greenland, New Hampshire 03840

**Foreign Sales Administrative Office**  
10300 S.W. Allen Blvd.  
Beaverton, Oregon 97005

**Canada Sales and Marketing Office**  
NIKE Canada Ltd.  
2445 Centre Avenue  
Capeville, British Columbia  
Canada V3K 6A9

**European Sales and Marketing Offices**

**Great Britain**

Canston House  
Washington Centre  
District 4, Washington  
Tyne & Wear NE13 7RN  
England

**France**  
7, BLD D'Orvèry  
Boulevard d'Activités de Cergy  
St. Christophe BP 8237  
95801 Cergy Pontoise Cedex  
France

**Italy**  
Via Tassi 49/A  
42100 Reggio Emilia  
Italy

**Germany**  
Fildeneue 16  
6108 Wittenstadt  
West Germany

**Norway**  
Hartmannsgate 44  
Oslo 2  
Norway

**Sweden**  
Rindögatan 3  
17230 Sandviken  
Sweden

**Denmark**  
Bakkegaardvej 209  
DK — 3050 Humlebæk  
Denmark

**SHAREHOLDERS'  
INFORMATION**

**Corporate Office**  
3000 S.W. Marway Blvd.  
Beaverton, Oregon 97005  
(503) 641-6453

**Annual Meeting**  
10 a.m., September 18, 1989  
Multnomah Athletic Club  
1840 S.W. Salmon  
Portland, Oregon 97203

**Independent Accountants**  
Price Waterhouse  
101 S.W. Main Street, Suite 1700  
Portland, Oregon 97204

**Registrar and Transfer Agent**  
United States National Bank of Oregon  
309 S.W. 6th 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 the Treasurer at the  
Corporate Office.



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*NIKE, Inc.*

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*Beverton, Oregon 97005*

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