

NIKE, INC. 1996 ANNUAL REPORT



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

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

TO OUR SHAREHOLDERS:

USUALLY, WHEN MICHAEL JORDAN STEPS INTO THE PHONE BOOTH HE COMES OUT AS SUPERMAN. THIS TIME, HE FOUND HIMSELF IN A PHOTO BOOTH. HIS SURPRISE IS REFLECTED ON THE COVER OF THIS ANNUAL REPORT.

THERE WERE A LOT OF OTHER PEOPLE WHO GOT CAUGHT IN THE SAME BOOTH THIS JUNE. THEY REPRESENT THE 4,500 PEOPLE WHO CREATE NIKE SHOES, CLOTHES AND ACCESSORIES. THEY BRING THEM TO MICHAEL JORDAN, BO JACKSON, ANDRE AGASSI, 85 MILLION OTHER PEOPLE AROUND THE WORLD, AND YOU.

IT IS NOT A SIMPLE PROCESS.

OVER THE PAST SEVERAL YEARS, THIS INDUSTRY HAS GROWN DRAMATICALLY. TODAY'S ESTIMATES PLACE IT AT ABOUT \$5 BILLION WHOLESALE COMPARED TO ROUGHLY \$1 BILLION WHEN I STARTED IN THE BUSINESS 25 YEARS AGO. WITH THE INCREASE IN SIZE HAS COME A GREAT DEAL OF MEDIA ATTENTION AND ATTEMPTS TO CAPTURE THE ESSENCE OF NIKE OR THE INDUSTRY IN A 30 SECOND NEWS STORY OR A ONE-PAGE RESEARCH REPORT. ALTHOUGH TO SOME IT MAY APPEAR TO BE A SIMPLE INDUSTRY, SUCCESS WITHIN IT IS COMPLICATED BY THE HUGE HUMAN FACTOR. THE INDUSTRY DEFIES AUTOMATION. IT IS NOT A SINGLE PRODUCT MODEL, NOR A SINGLE MANAGER, NOR ONE AD, NOR A SINGLE CELEBRITY, NOT EVEN A SINGLE INNOVATION THAT IS THE KEY TO NIKE. IT IS THE PEOPLE OF NIKE AND THEIR UNIQUE AND CREATIVE WAY OF WORKING TOGETHER, THAT HAS BROUGHT OUR SHAREHOLDERS EARNINGS INCREASES OF OVER \$140 MILLION DURING THE LAST TWO YEARS.



DESCRIBING HOW 4,500 PEOPLE AROUND THE WORLD COORDINATE THEIR EFFORTS DAY BY DAY IS IMPOSSIBLE IN A SHORT DOCUMENT LIKE THIS ANNUAL REPORT. INDEED, THE DAY WE ARE ABLE TO DESCRIBE IN A FEW PAGES HOW WE DO WHAT WE DO WILL BE THE DAY WE LOSE OUR SPONTANEITY AND INNOVATIVE EDGE. IT IS AS MUCH AN ART AS IT IS A SCIENCE.

I WANT TO SINGLE OUT ONE OF THE 4,500 IN PARTICULAR. HE IS RICHARD K. DONAHUE, NIKE'S NEW PRESIDENT AS OF JULY 1. HE IS A LAWYER FROM LOWELL, MASSACHUSETTS AND HAS BEEN A NIKE BOARD MEMBER FOR THE PAST 13 YEARS. FOR THE PAST THREE YEARS, HE HAS BEEN OVERSEEING NIKE'S INTERNATIONAL EXPANSION. HE IS PICTURED IN THE ADMINISTRATION AND OPERATIONS SECTION OF THIS REPORT. HE'S THE SERIOUS ONE, SECOND FROM THE LEFT, APPROPRIATELY ENOUGH. I HAVE FOUND HIM TO BE A KIND OF ADMINISTRATIVE GENIUS, JUST WHAT THE COMPANY NEEDS--THE MAN TO BRING DISCIPLINE AND EFFICIENCY AT A HIGH LEVEL TO MAINTAIN A PROPER BALANCE WITH ALL THE CREATIVITY WE HAVE TO OFFER.

ON THE FOLLOWING PAGES, WE USE THE PHOTO BOOTH TO GIVE YOU A FEEL FOR THE REST OF THE PEOPLE THAT MAKE THE COMPANY RUN. MANY COMPANIES HAVE DONE THIS, BUT THEY ALWAYS SHOW THEIR EMPLOYEES IN THREE-PIECE SUITS OR HIGH HEELS. OUR PHOTOS, IN MARKED CONTRAST TO THE TRADITIONAL, WERE TAKEN AFTER FIVE INTENSE DAYS OF INTERNATIONAL SALES MEETINGS WHEN EXHAUSTION AND PUNCHINESS ARE BEGINNING TO SET IN.

RESTED OR TIRED, INTENSE OR RELAXED, THESE PEOPLE, WORKING TOGETHER, PRODUCED THE FOLLOWING RESULTS FOR FY 1990: REVENUES UP 31 PERCENT TO \$2.2 BILLION; NET INCOME UP 45 PERCENT TO \$243 MILLION; FUTURES ORDERS UP 38 PERCENT IN U.S. FOOTWEAR, 27 PERCENT IN U.S. APPAREL AND 70 PERCENT IN APPAREL AND FOOTWEAR OUTSIDE THE U.S. ALSO, FOR THE SECOND YEAR IN A ROW, THE PEOPLE AT NIKE GARNERED TOP RATINGS IN RETAILER SURVEYS FOR OVERALL SERVICE, DELIVERY, DISTRIBUTION POLICY, RESPONSIVENESS TO COMPLAINTS, AND RETURN POLICY.

FINALLY, AND MAYBE MOST IMPORTANT, WE WITNESSED AN EXCITING TRANSFORMATION WITHIN THE COMPANY DURING THE LAST FISCAL YEAR. WHILE THE COMPANY'S FIRST SHOE CAME FROM JAPAN AND WE HAVE BEEN SELLING OUTSIDE THE U.S. SINCE THE EARLY 1970'S, IT WAS JUST THIS YEAR, 1990, WHEN WE TRULY BECAME AN INTERNATIONAL COMPANY, AS OPPOSED TO ONE JUST DOING BUSINESS INTERNATIONALLY. IT WAS A DIFFERENT ATTITUDE ONE COULD SENSE AT THE ANNUAL SALES MEETING THIS PAST JUNE. THERE WERE NO LONGER TWO CAMPS--DOMESTIC AND FOREIGN. THERE WAS ONE--NIKE. IT CAME NATURALLY AND WAS NOT FORCED. PEOPLE WERE GENUINELY CONCERNED--TALKING AT LUNCH, AFTER WORK, DURING WORK-OUTS--ABOUT WHAT WAS HAPPENING IN GERMANY, CHINA, AND MEXICO. THE TALK WASN'T JUST FOR EDUCATION; THERE WAS A REALIZATION THAT WHAT IS HAPPENING ON ONE CONTINENT HAS AN IMPACT WORLDWIDE, THAT BODES EXTREMELY WELL FOR THE COMPANY'S FUTURE.

MY OWN VIEW OF THE DECADE AHEAD GOES SOMETHING LIKE THIS: WE STAY PRIMARILY IN SHOES, CLOTHES AND ACCESSORIES, MARKET AGGRESSIVELY AROUND THE WORLD, AND MAKE A COUPLE ACQUISITIONS DURING THE DECADE WHICH WILL STRENGTHEN US IN THESE THREE CORE AREAS OF OUR BUSINESS. OUR ACTUAL PLANS ARE A LITTLE MORE DETAILED THAN THAT, BUT THEIR SUCCESS OR FAILURE WILL BE DETERMINED BY MANY OF THE PEOPLE YOU WILL MEET ON THE ENSUING PAGES.

WE HOPE YOU ARE ON OUR SHAREHOLDER LIST NEXT YEAR. THERE ARE 4,500 PEOPLE WORKING VERY HARD TO KEEP YOU THERE.



PHILIP H. KNIGHT

CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER



THIS ANNUAL REPORT IS ABOUT THE PEOPLE WHO WORK FOR A UNIQUE COMPANY AND HOW THEY WORK TOGETHER TO PRODUCE OUTSTANDING RESULTS FOR SHAREHOLDERS. TO BORROW A WORD FROM THE WORLD OF ATHLETICS, IT'S ABOUT TEAMWORK. IN MANAGEMENT TEXTBOOKS, IT'S ABOUT PEOPLE WORKING TOGETHER WITHIN A MATRIX ORGANIZATION. IT'S ALSO ABOUT A SPECIAL CORPORATE CULTURE, INSPIRED BY COMPETITIVE SPORTS AND THE DESIRE TO WIN.

BEFORE A PRODUCT IS BORN, NIKE HAS RESEARCHED WHAT ELEMENTS NEED TO BE INCLUDED FOR ENHANCED FIT AND FUNCTION; HOW THIS PRODUCT CAN OFFER MORE THAN ITS PREDECESSOR; HOW IT CAN BE THE NEXT STEP IN THE EVOLUTION OF PERFORMANCE FOOTWEAR, APPAREL AND ACCESSORIES, AND ONE OF THE MAJOR REASONS WE ARE ABLE TO ANSWER THESE QUERIES UNLIKE ANY OTHER SPORTS AND FITNESS COMPANY IS THE NIKE SPORT RESEARCH LABORATORY (NSRL). SINCE 1980, THE NSRL HAS CONDUCTED EXTENSIVE STUDIES ON A WIDE VARIETY OF BASIC AND APPLIED RESEARCH PROJECTS, FROM CHILDREN'S FOOT MORPHOLOGY TO THE PROBLEM OF TURF TOE IN FOOTBALL TO APPAREL AERODYNAMICS. NSRL ALSO EVALUATES NEW IDEAS FROM OUR ADVANCE PRODUCT ENGINEERING (APE) DEPARTMENT WHICH WORKS ON LONG-TERM PRODUCT DEVELOPMENTS THAT OFTEN RESULT IN REVOLUTIONARY INNOVATIONS SUCH AS THE NIKE FOOTBRIDGE™ STABILITY DEVICE, INFLATABLE FIT SYSTEMS AND THE 180 NIKE-AIR® CUSHIONING SYSTEM.



The exceptional Air 180, the most cushioned running shoe developed, will be introduced in Spring 1991 as part of the NIKE International Collection.

research & technology

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...THAT OFFER RESULT IN REVOLUTIONARY INNOVATIONS SUCH AS THE NIKE FOOTBED, STABILITY BRACE, INFLATABLE AIR
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The exceptional Air 180, the most cushioned running shoe developed, will be introduced in Spring 1991 as part of the NIKE International Collection.

design & development



THE NSRL AND APE INFORMATION IS THEN USED BY OUR PRODUCT DESIGNERS AND DEVELOPERS TO CREATE THE MOST INNOVATIVE, HIGH-PERFORMANCE PRODUCTS ON THE MARKET. AS WE MOVE FORWARD WITH MORE ADVANCED PRODUCT, THEY WILL FACE EVEN GREATER DEVELOPMENT AND ENGINEERING CHALLENGES.

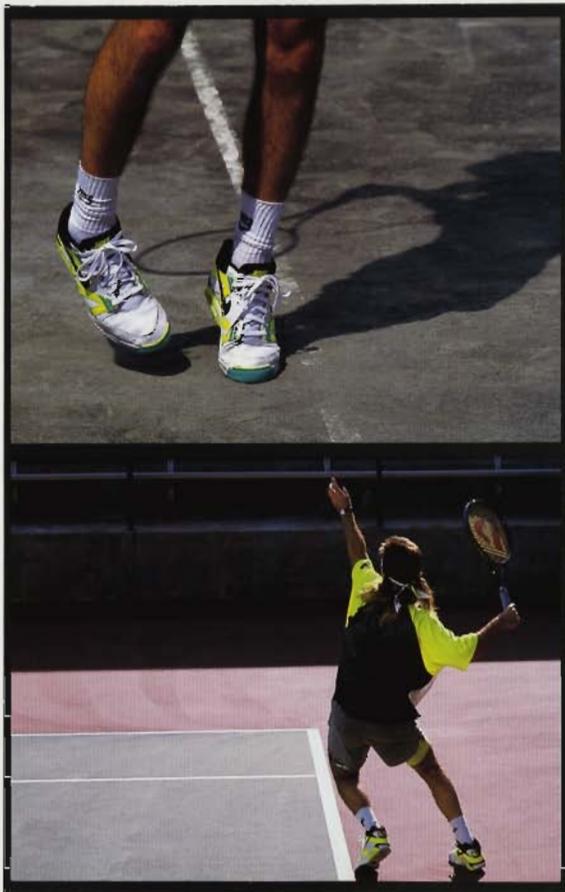
FOR PRODUCT DEVELOPERS, THE LARGEST CHALLENGE IS TO DEVELOP NEW PRODUCTS IN A TIMELY AND PROFITABLE MANNER. IT'S NIKE'S EXPERIENCED AND KNOWLEDGEABLE DEVELOPERS WHO HAVE SUCCEEDED IN BEING THE BEST IN THE INDUSTRY AND GETTING THE JOB DONE SEASON AFTER SEASON. FOR PRODUCT DESIGNERS, THE CHALLENGE IS TO CREATE FRESH, NEW DESIGNS THAT CONSUMERS FIND DESIRABLE. THEY WORK WITH MARKETING MANAGERS, ATHLETES AND A VARIETY OF OTHER SOURCES TO ACHIEVE AUTHENTIC-ATHLETIC AND TREND-SETTING DESIGNS. BOTH DESIGNERS AND DEVELOPERS ARE CHALLENGED TO KEEP UP WITH THE INCREASING DEMAND FOR NEW PRODUCT. IN SPRING 1991 ALONE, NIKE WILL PRODUCE 860 FOOTWEAR MODELS, 8500 APPAREL STYLES AND 500 ACCESSORY STYLES.

ADDITIONAL DESIGN AREAS THAT ENHANCE NIKE'S IMAGE ARE ENVIRONMENTAL DESIGN, GRAPHIC DESIGN AND VIDEO. THESE DEPARTMENTS ASSIST THE MARKETING, SALES AND RETAIL DIVISIONS IN PROMOTING AND SUPPORTING THE PRESENTATION OF THE PRODUCT TO THE SALES FORCE, RETAILERS AND CONSUMERS. THEY ALSO HELP ENHANCE AND REINFORCE NIKE'S CORPORATE IMAGE AT ALL LEVELS—FROM THE DESIGN OF A 50,000 SQUARE FOOT TRADE SHOW BOOTH TO THE DESIGN OF OUR CORPORATE BUSINESS CARDS—FOR A CONSISTENT AND RECOGNIZABLE BRAND PRESENTATION. WHEN IT COMES TO DESIGNING PRODUCT, VIDEOS, DISPLAYS, OR THIS ANNUAL REPORT, THESE TALENTED EMPLOYEES ARE INSTRUMENTAL IN MAINTAINING NIKE'S SUCCESSFUL IMAGE AROUND THE WORLD.

NIKE'S Challenge Course Collection is designed to reflect the new "power" game of tennis—
fast and intense high performance between opponent and opponent.

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BEGINNING PRODUCT VISUALS, DISPLAYS, OR THE ANNUAL REPORT, THESE EXPERTS EMPLOY THE INSTRUMENTS IN WHICH
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TO KEEP UP WITH THE INCREASING DEMAND FOR NEW PRODUCTS, NIKE ALONE NIKE WILL PRODUCE 800 FOOTWEAR
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FACE EVEN GREATER DEVELOPMENT AND ENGINEERING CHALLENGES.

THESE HIGH-PERFORMANCE PRODUCTS ON THE MARKET AS WE MOVE FORWARD WITH MORE ADVANCED PRODUCTS. THEY WILL
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NIKE'S Challenge Court Collection is designed to reflect the new "power" game of tennis — bold and intense high-performance footwear, apparel and accessories.



NIKE'S PRODUCTION AND FORECASTING TEAM HAS BEEN A KEY ELEMENT IN NIKE'S SUCCESS. THEY HAVE BEEN ABLE TO FORECAST AND BUILD SUFFICIENT PRODUCT TO MEET THE INCREASED DEMAND NIKE HAS EXPERIENCED IN THE PAST THREE YEARS. THIS TASK WAS NOT ONLY DIFFICULT, BUT FOR MANY OTHER COMPANIES IT WOULD HAVE BEEN IMPOSSIBLE.

THE NUMBERS SPEAK FOR THEMSELVES: IN FY 89, DOMESTIC FOOTWEAR REVENUES INCREASED 41% FROM FY 88 AND ANOTHER 29% IN FY 90. DOMESTIC APPAREL REVENUES GREW 46% IN FY 89 AND ANOTHER 28% IN FY 90.

OF COURSE, AS OUR ORDERS INCREASE, WE NEED MORE FACTORIES TO HANDLE OUR PRODUCTION. NIKE INCREASED THE NUMBER OF FOOTWEAR FACTORIES WE USE WORLDWIDE FROM 32 IN 1989 TO 47 IN 1990. NIKE HAS THE MOST DIVERSIFIED PRODUCTION BASE OF ANY COMPANY IN THE INDUSTRY. IN ADDITION TO KOREA, TAIWAN, THAILAND, INDONESIA, CHINA, ITALY AND THE U.S.A., OUR PRODUCTION SOURCES HAVE EXPANDED TO INCLUDE MEXICO, MALAYSIA AND ARGENTINA.

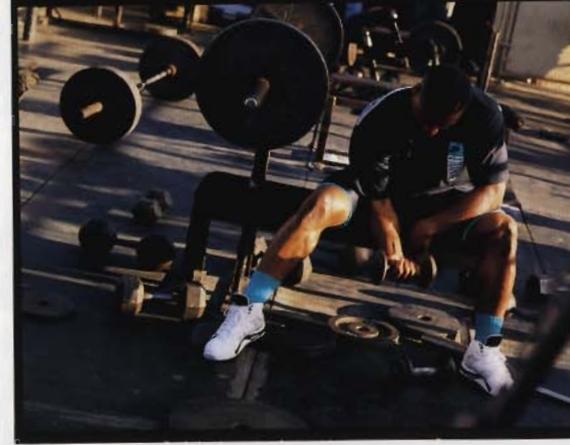
OTHER AREAS RELATED TO PRODUCTION AND FORECASTING HAVE ALSO GROWN. COMPONENTS, TRANSPORTATION, SCHEDULING, INVENTORY CONTROL, QUALITY CONTROL AND ALL NIKE LIAISON OFFICES BOAST INCREASES IN ACTIVITY AND STAFFING.

COMPARED TO OUR COMPETITORS, NIKE HAS, BY FAR, THE GREATEST NUMBER OF ON-SITE PRODUCTION SPECIALISTS OVERSEEING EVERY STEP OF THE PRODUCTION PROCESS FROM DEVELOPMENT THROUGH DELIVERY.

HAVING A STRONG PRODUCTION AND FORECASTING TEAM HAS ENABLED US TO EXPAND AND FOCUS ON OTHER AREAS WITHIN THE COMPANY SUCH AS SALES, MARKETING AND INTERNATIONAL BUSINESS. FOR FY 90, IT'S PLAIN TO SEE THIS TEAM IS SOLID, GETTING STRONGER AND WORKING TOWARD BEING EVEN MORE POWERFUL AND EFFECTIVE IN THE FUTURE.

production & forecasting

OUR PRODUCTION AND FORECASTING TEAM HAS BEEN A KEY ELEMENT IN NIKI'S SUCCESS. THEY HAVE BEEN ABLE TO FORECAST AND BUILD SUFFICIENT PRODUCT TO MEET THE INCREASED DEMAND NIKI HAS EXPERIENCED IN THE PAST THREE YEARS. THIS TASK WAS NOT ONLY DIFFICULT, BUT FOR MANY OTHER COMPANIES IT WOULD HAVE BEEN IMPOSSIBLE. THE NUMBERS SPEAK FOR THEMSELVES. IN FY 06, DOMESTIC FOOTWEAR REVENUE INCREASED BY 10% OVER 2005. IN FY 07, DOMESTIC APPAREL REVENUE GREW 44% IN FY 06 AND ANOTHER 23% IN FY 07. OF COURSE, AS OUR ORDERS INCREASE, WE NEED MORE FACTORIES TO HANDLE OUR PRODUCTION. NIKI INCREASED THE NUMBER OF FOOTWEAR FACTORIES WE USE WORLDWIDE FROM 22 IN 1999 TO 43 IN 2006. NIKI HAS THE MOST DIVERSIFIED PRODUCTION BASE OF ANY COMPANY IN THE INDUSTRY. IN ADDITION TO KOREA, TAIWAN, THAILAND, INDONESIA, CHINA, ITALY AND THE U.S.A., OUR PRODUCTION SOURCES HAVE EXPANDED TO INCLUDE MEXICO, HONDURAS AND ARGENTINA. OTHER AREAS RELATED TO PRODUCTION AND FORECASTING HAVE ALSO GROWN. COMPONENTS, TRANSPORTATION, SCHEDULES, AND INVENTORY CONTROL. QUALITY CONTROL AND ALL THESE AREAS OFFICE BOAST INCREASES IN ACTIVITY AND OUTPUT. COMPARED TO OUR COMPETITORS, NIKI HAS BEEN THE GREATEST NUMBER OF OUR PRODUCTION FACILITIES OPERATING EVERY STEP OF THE PRODUCTION PROCESS FROM DEVELOPMENT THROUGH DELIVERY. HAVING A STRONG PRODUCTION AND FORECASTING TEAM HAS ENABLED US TO EXPAND AND FOCUS ON OTHER AREAS WITHIN THE COMPANY SUCH AS SALES, MARKETING AND INTERNATIONAL BUSINESS. FOR FY 06, THE TEAM TO SEE THIS TEAM IS DEFINITELY STRONGER AND MOVING TOWARD BEING EVEN MORE POWERFUL AND EFFECTIVE IN THE FUTURE.



NIKE created the category of Cross-Training to fit today's lifestyles; we have dominated this segment from the start, and continue to lead it as seen by our nearly 80% footwear market share.

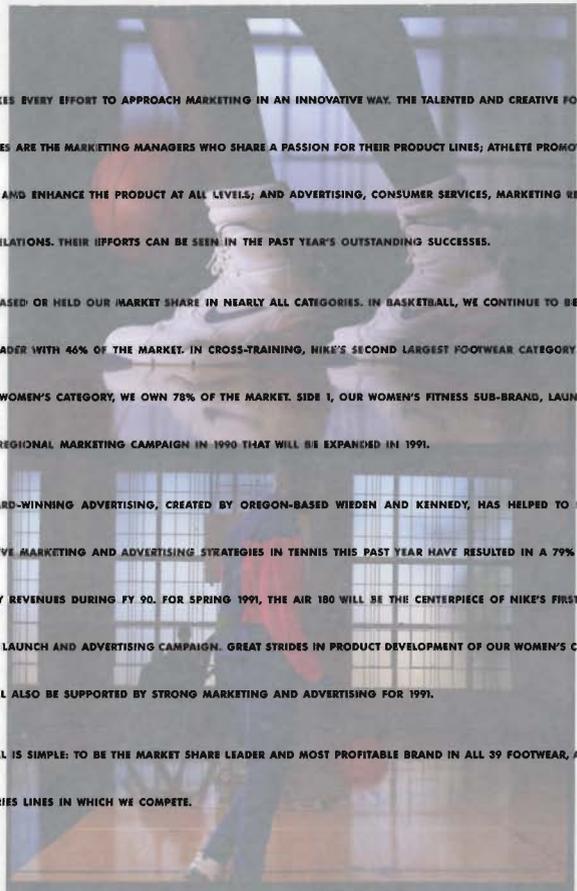


NIKE MAKES EVERY EFFORT TO APPROACH MARKETING IN AN INNOVATIVE WAY. THE TALENTED AND CREATIVE FORCES BEHIND THE SCENES ARE THE MARKETING MANAGERS WHO SHARE A PASSION FOR THEIR PRODUCT LINES; ATHLETE PROMOTIONS WHICH SUPPORT AND ENHANCE THE PRODUCT AT ALL LEVELS; AND ADVERTISING, CONSUMER SERVICES, MARKETING RESEARCH AND PUBLIC RELATIONS. THEIR EFFORTS CAN BE SEEN IN THE PAST YEAR'S OUTSTANDING SUCCESSSES.

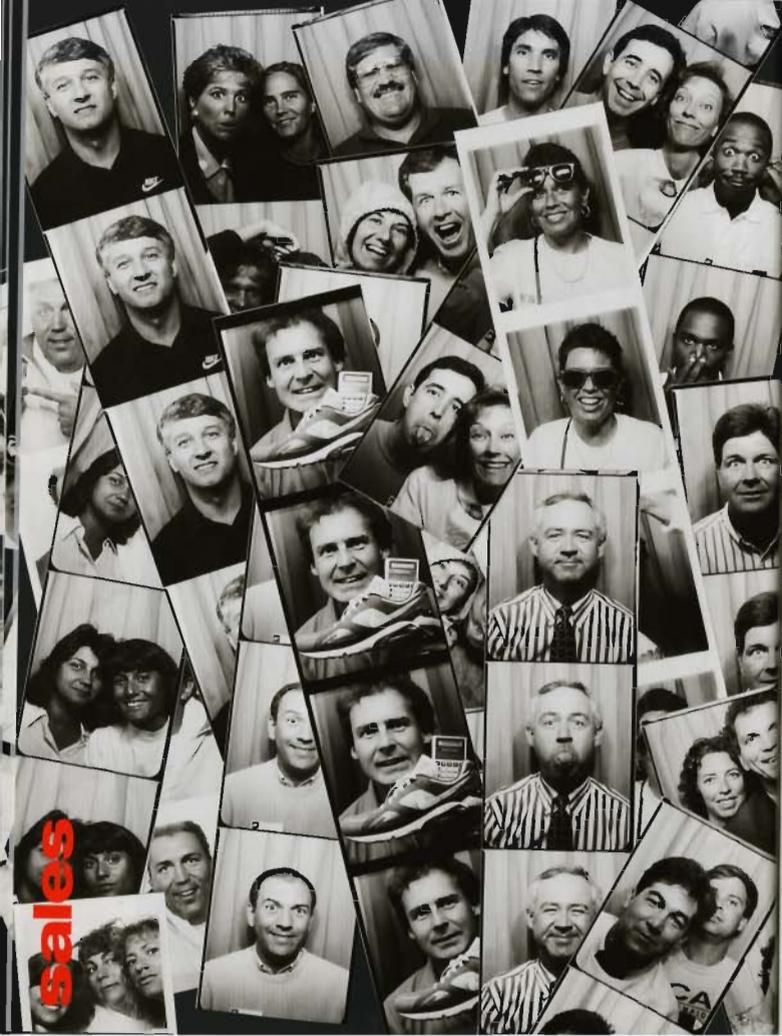
WE INCREASED OR HELD OUR MARKET SHARE IN NEARLY ALL CATEGORIES. IN BASKETBALL, WE CONTINUE TO BE THE MARKET SHARE LEADER WITH 46% OF THE MARKET. IN CROSS-TRAINING, NIKE'S SECOND LARGEST FOOTWEAR CATEGORY AND SINGLE LARGEST WOMEN'S CATEGORY, WE OWN 78% OF THE MARKET. SIDE 1, OUR WOMEN'S FITNESS SUB-BRAND, LAUNCHED A SUCCESSFUL REGIONAL MARKETING CAMPAIGN IN 1990 THAT WILL BE EXPANDED IN 1991.

OUR AWARD-WINNING ADVERTISING, CREATED BY OREGON-BASED WIEDEN AND KENNEDY, HAS HELPED TO DRIVE SALES. AGGRESSIVE MARKETING AND ADVERTISING STRATEGIES IN TENNIS THIS PAST YEAR HAVE RESULTED IN A 79% INCREASE IN CATEGORY REVENUES DURING FY 90. FOR SPRING 1991, THE AIR 180 WILL BE THE CENTERPIECE OF NIKE'S FIRST WORLDWIDE PRODUCT LAUNCH AND ADVERTISING CAMPAIGN. GREAT STRIDES IN PRODUCT DEVELOPMENT OF OUR WOMEN'S CASUAL FOOTWEAR WILL ALSO BE SUPPORTED BY STRONG MARKETING AND ADVERTISING FOR 1991.

OUR GOAL IS SIMPLE: TO BE THE MARKET SHARE LEADER AND MOST PROFITABLE BRAND IN ALL 39 FOOTWEAR, APPAREL AND ACCESSORIES LINES IN WHICH WE COMPETE.



An exciting series of ads, "Mr. Robinson's Neighborhood," will highlight Basketball's Iron Collection and name David Robinson, the 1990 NBA Rookie of the Year.



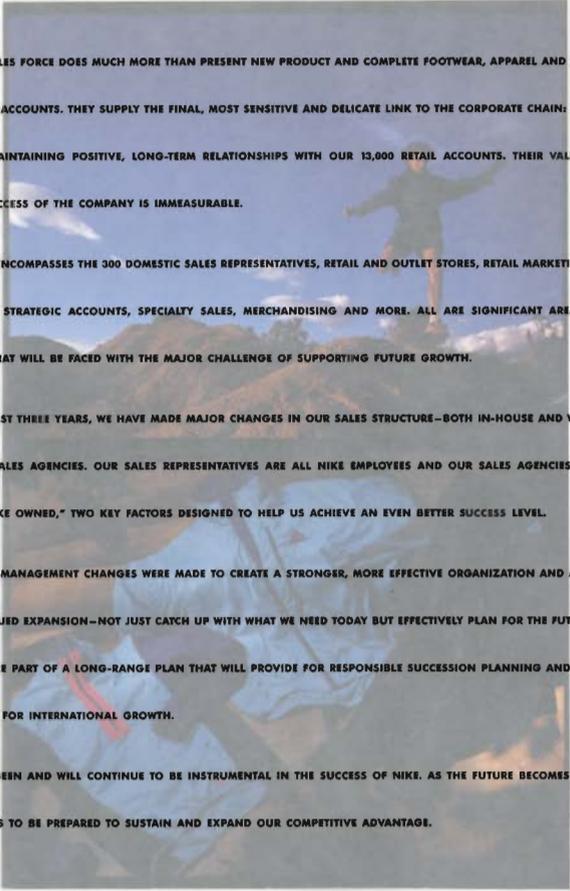
THE NIKE SALES FORCE DOES MUCH MORE THAN PRESENT NEW PRODUCT AND COMPLETE FOOTWEAR, APPAREL AND ACCESSORY ORDERS FOR ACCOUNTS. THEY SUPPLY THE FINAL, MOST SENSITIVE AND DELICATE LINK TO THE CORPORATE CHAIN: ESTABLISHING AND MAINTAINING POSITIVE, LONG-TERM RELATIONSHIPS WITH OUR 13,000 RETAIL ACCOUNTS. THEIR VALUE TO THE OVERALL SUCCESS OF THE COMPANY IS IMMEASURABLE.

NIKE SALES ENCOMPASSES THE 300 DOMESTIC SALES REPRESENTATIVES, RETAIL AND OUTLET STORES, RETAIL MARKETING, DIRECT MARKETING, STRATEGIC ACCOUNTS, SPECIALTY SALES, MERCHANDISING AND MORE. ALL ARE SIGNIFICANT AREAS OF THE COMPANY THAT WILL BE FACED WITH THE MAJOR CHALLENGE OF SUPPORTING FUTURE GROWTH.

OVER THE PAST THREE YEARS, WE HAVE MADE MAJOR CHANGES IN OUR SALES STRUCTURE—BOTH IN-HOUSE AND WITHIN THE REGIONAL SALES AGENCIES. OUR SALES REPRESENTATIVES ARE ALL NIKE EMPLOYEES AND OUR SALES AGENCIES HAVE ALL BECOME "NIKE OWNED," TWO KEY FACTORS DESIGNED TO HELP US ACHIEVE AN EVEN BETTER SUCCESS LEVEL.

INTERNALLY, MANAGEMENT CHANGES WERE MADE TO CREATE A STRONGER, MORE EFFECTIVE ORGANIZATION AND ALSO PLAN FOR CONTINUED EXPANSION—NOT JUST CATCH UP WITH WHAT WE NEED TODAY BUT EFFECTIVELY PLAN FOR THE FUTURE. THESE CHANGES ARE PART OF A LONG-RANGE PLAN THAT WILL PROVIDE FOR RESPONSIBLE SUCCESSION PLANNING AND A GLOBAL PERSPECTIVE FOR INTERNATIONAL GROWTH.

SALES HAS BEEN AND WILL CONTINUE TO BE INSTRUMENTAL IN THE SUCCESS OF NIKE. AS THE FUTURE BECOMES A REALITY, OUR GOAL IS TO BE PREPARED TO SUSTAIN AND EXPAND OUR COMPETITIVE ADVANTAGE.



NIKE's specialty sales force concentrates on smaller markets by selling store-specific performance products such as the All Conditions Gear Collection for outdoor recreation.



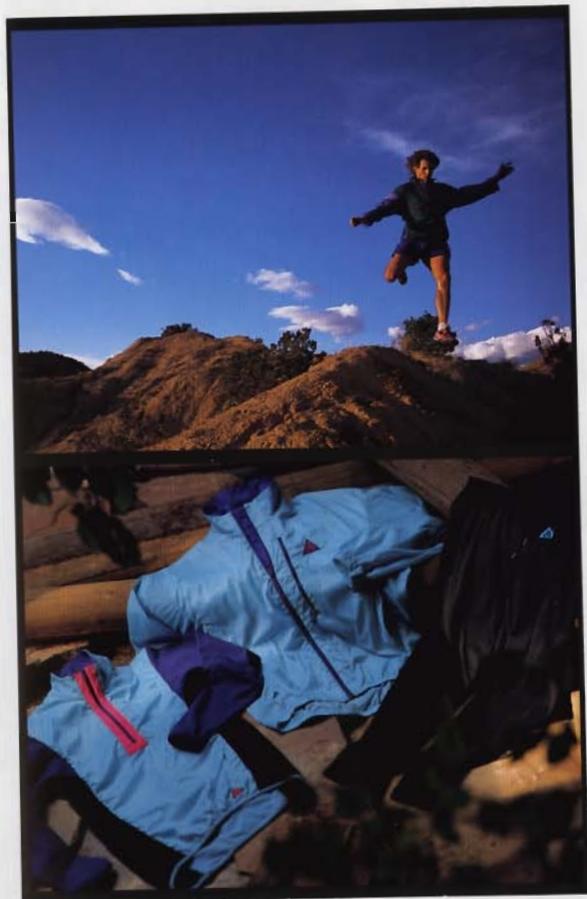
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NIKE's specialty sales force concentrates on smaller markets by selling sport-specific performance products such as the All Conditions Gear Collection for outdoor cross-training.



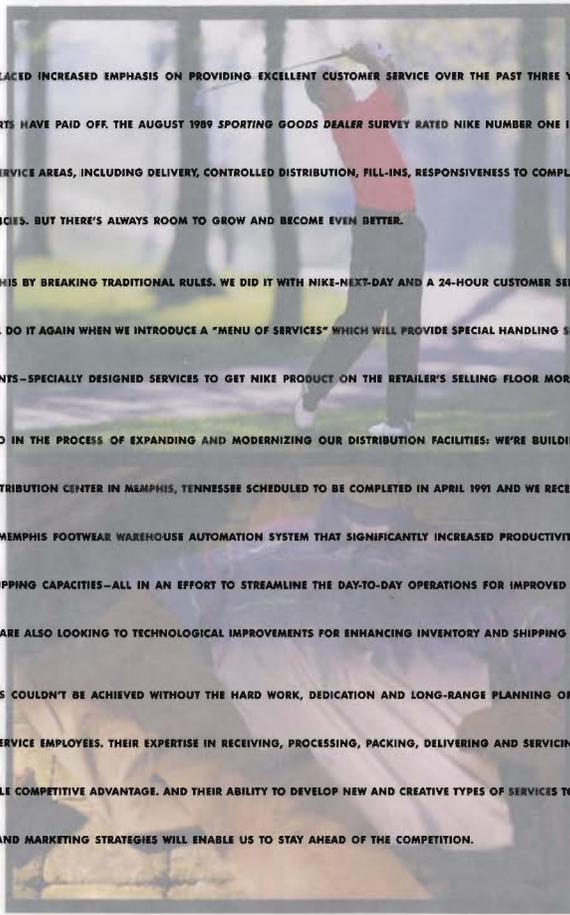
customer
service

NIKE HAS PLACED INCREASED EMPHASIS ON PROVIDING EXCELLENT CUSTOMER SERVICE OVER THE PAST THREE YEARS AND THOSE EFFORTS HAVE PAID OFF. THE AUGUST 1989 SPORTING GOODS DEALER SURVEY RATED NIKE NUMBER ONE IN SEVERAL CUSTOMER SERVICE AREAS, INCLUDING DELIVERY, CONTROLLED DISTRIBUTION, FILL-INS, RESPONSIVENESS TO COMPLAINTS AND RETURN POLICIES. BUT THERE'S ALWAYS ROOM TO GROW AND BECOME EVEN BETTER.

NIKE DOES THIS BY BREAKING TRADITIONAL RULES. WE DID IT WITH NIKE-NEXT-DAY AND A 24-HOUR CUSTOMER SERVICE LINE. AND WE WILL DO IT AGAIN WHEN WE INTRODUCE A "MENU OF SERVICES" WHICH WILL PROVIDE SPECIAL HANDLING SERVICES TO OUR ACCOUNTS—SPECIALLY DESIGNED SERVICES TO GET NIKE PRODUCT ON THE RETAILER'S SELLING FLOOR MORE QUICKLY.

WE ARE ALSO IN THE PROCESS OF EXPANDING AND MODERNIZING OUR DISTRIBUTION FACILITIES: WE'RE BUILDING A NEW APPAREL DISTRIBUTION CENTER IN MEMPHIS, TENNESSEE SCHEDULED TO BE COMPLETED IN APRIL 1991 AND WE RECENTLY COMPLETED THE MEMPHIS FOOTWEAR WAREHOUSE AUTOMATION SYSTEM THAT SIGNIFICANTLY INCREASED PRODUCTIVITY AS WELL AS PEAK SHIPPING CAPACITIES—ALL IN AN EFFORT TO STREAMLINE THE DAY-TO-DAY OPERATIONS FOR IMPROVED CUSTOMER SERVICE. WE ARE ALSO LOOKING TO TECHNOLOGICAL IMPROVEMENTS FOR ENHANCING INVENTORY AND SHIPPING ACCURACY.

BUT ALL THIS COULDN'T BE ACHIEVED WITHOUT THE HARD WORK, DEDICATION AND LONG-RANGE PLANNING OF THE NIKE CUSTOMER SERVICE EMPLOYEES. THEIR EXPERTISE IN RECEIVING, PROCESSING, PACKING, DELIVERING AND SERVICING ORDERS IS A VALUABLE COMPETITIVE ADVANTAGE. AND THEIR ABILITY TO DEVELOP NEW AND CREATIVE TYPES OF SERVICES TO SUPPORT OUR SALES AND MARKETING STRATEGIES WILL ENABLE US TO STAY AHEAD OF THE COMPETITION.



All of our products reflect attention to detail and quality for superior fit and comfort, as seen in our Spring 1991 Golf Collection worn by professional golfer Curtis Strange.



All of our products reflect attention to detail and quality for superior fit and comfort, as seen in our Spring 1991 Golf Collection worn by professional golfer Curtis Strange.

administration & operations



WHILE WE'VE FOCUSED ON SOME OF THE MORE VISIBLE AREAS OF NIKE IN THIS REPORT, THERE ARE MANY OTHER DEPARTMENTS "BEHIND THE SCENE" THAT HAVE CONTRIBUTED TO THE OVERALL SUCCESS OF THE COMPANY. DEPARTMENTS SUCH AS INFORMATION SERVICES AND ADMINISTRATIVE SERVICES, WHICH WE WILL HIGHLIGHT MORE IN-DEPTH BELOW, AS WELL AS PERSONNEL, ACCOUNTING/CREDIT, LEGAL, FINANCE AND A MYRIAD OF OTHERS HAVE ALL ADDED TO NIKE'S SUCCESS.

WITHOUT THE KNOWLEDGEABLE AND HARD WORKING TEAM OF EMPLOYEES IN INFORMATION SERVICES, WE NEVER WOULD HAVE BEEN ABLE TO ACHIEVE OUR CURRENT LEVEL OF CUSTOMER SERVICE. SINCE 1985, THE PRIMARY GOAL HAS BEEN TO DEVELOP AN INTEGRATED, ON-LINE, STATE-OF-THE-ART COMPUTER SYSTEM THAT WOULD IMPROVE OUR CUSTOMER SERVICE. AFTER THOUSANDS OF HOURS PLANNING, ANALYZING, PROGRAMMING AND INTEGRATING THIS SOPHISTICATED COMPUTER SYSTEM, WE ARE FINALLY WITHIN REACH OF THIS GOAL. BUT NOT ONLY HAS THIS EXPANDED OUR CUSTOMER SERVICE CAPABILITIES, WE ALSO HAVE VASTLY IMPROVED PRODUCT DISTRIBUTION SERVICES, ACCOUNTING AND INVOICING SYSTEMS, WAREHOUSE AUTOMATION AND MORE.

NIKE HAS EFFICIENT AND RELIABLE OPERATIONAL SUPPORT AND SERVICES, THANKS TO THE DEDICATED EFFORTS OF THE ADMINISTRATIVE SERVICES DEPARTMENT. FROM DEVELOPING AND MAINTAINING A SOPHISTICATED TELEPHONE NETWORK SYSTEM TO PROCESSING AND DISTRIBUTING 20,000 PIECES OF MAIL DAILY, EACH MEMBER OF THE DEPARTMENT IS PREPARED TO RESPOND TO NIKE'S DAILY AND EVERCHANGING INTERNAL SERVICE AND OPERATIONAL NEEDS. FOR THE PAST TWO AND A HALF YEARS, THIS MULTI-FUNCTION GROUP HAS ACTIVELY PARTICIPATED IN ALL ASPECTS OF PLANNING FOR THE WORLD CAMPUS. AS THE COMPANY CONSOLIDATES ON THE NEW NIKE WORLD CAMPUS, THEIR GOAL IS TO CONTINUE TO BE THE MOST INNOVATIVE SUPPORT SERVICES DIVISION POSSIBLE.

The women fitness market offers excellent opportunity for growth. NIKE is working to strengthen and expand our position through active support of female instructor programs and other sport-affiliations.

SUPPORT SERVICES DIVISION POSSIBLE
DYNAMIC COORDINATION OF THE NEW NIKE WORLD CAMPUS THEIR GOAL IS TO CONTINUE TO BE THE MOST INNOVATIVE
THE MULTI-FUNCTION GROUP HAS ACTIVELY PARTICIPATED IN ALL ASPECTS OF PLANNING FOR THE WORLD CAMPUS. AS THE
NIKE'S DAILY AND EVER-CHANGING INTERNAL SERVICE AND OPERATIONAL MODEL. FOR THE PAST TWO AND A HALF YEARS
PROCESSING AND DISTRIBUTING 30,000 NIKE'S OF VARIOUS SIZES OF EACH COLOR. EACH MEMBER OF THE DEPARTMENT IS PREPARED TO RESPOND
EXISTING SERVICES DEPARTMENT. FROM DEVELOPING AND MAINTAINING A SOPHISTICATED TELEPHONE NETWORK SYSTEM TO
WE ARE EFFICIENT AND RELIABLE OPERATIONAL SUPPORT AND SERVICES. THANKS TO THE DEDICATED EFFORTS OF THE ADMINIS-
TRATION AND SUPPORT SERVICES DIVISION. WE ARE COMMITTED TO PROVIDING THE BEST SERVICE TO OUR CUSTOMERS AND MORE.
RECENTLY AUTOMATION AND MORE.
FURTHER, WE ALSO HAVE VASTLY IMPROVED PRODUCT DISTRIBUTION SERVICES, ACCOUNTING AND INVOICING SYSTEMS.
ITEMS, WE ARE FINALLY WITHIN REACH OF THIS GOAL. BUT NOT ONLY HAS THIS EXPANDED OUR CUSTOMER SERVICE
THE THOUSANDS OF HOURS PLANNING, ANALYZING, PROGRAMMING AND INTEGRATING THIS SOPHISTICATED COMPUTER
SYSTEM AN INTEGRATED, ON-THE-SPOT, COMPUTER SYSTEM THAT WOULD IMPROVE OUR CUSTOMER SERVICE.
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IMPROVE THE KNOWLEDGEABLE AND HARD WORKING TEAM OF EMPLOYEES IN INFORMATION SERVICES. WE NEVER WOULD
CONSIDER OURSELVES FINANCIALLY AHEAD OF OTHERS UNLESS WE'VE ALL MOVED TO NIKE'S SUCCESS.
ON SERVICES AND ADMINISTRATIVE SERVICES, WHICH WE WILL HIGHLIGHT MORE IN-DEPTH BELOW, AS WELL AS PERSONNEL.
BEHIND THE SCENES THAT HAVE CONTRIBUTED TO THE OVERALL SUCCESS OF THE COMPANY. DEPARTMENTS SUCH AS INVENTORY
WILL BE FOCUSED ON SOME OF THE MORE VISIBLE AREAS OF NIKE IN THIS REPORT, THERE ARE MANY OTHER DEPARTMENTS



The women's fitness market offers excellent opportunity for growth. NIKE is working to strengthen and expand our position through active support of aerobic instructor programs and other sport affiliations.



cole-haan

EVERYONE AT COLE-HAAN, FROM DESIGN AND SALES TO DISTRIBUTION AND CUSTOMER SERVICE, CONTINUES TO WORK TOWARD A COMMON GOAL: QUALITY. IT IS THE UNCOMMON PEOPLE OF COLE-HAAN WHO MAKE SUCH A STANDARD POSSIBLE, PEOPLE WHO HAVE MADE QUALITY BOTH A PERSONAL COMMITMENT AND A CORPORATE GOAL.

COLE-HAAN'S EMPLOYEES' EFFORTS HAVE PAID OFF: WE HAD ANOTHER TREMENDOUS YEAR, DEMONSTRATING INCREASED GROWTH AND PROFITABILITY, WITH REVENUES FOR THE YEAR TOPPING \$111 MILLION, UP 27% OVER LAST YEAR. DURING THIS HIGH-GROWTH YEAR, COLE-HAAN CONTINUED ITS INNOVATIVE LIFESTYLE MARKETING APPROACH, CREATING UPDATED CASUAL AND DRESS FOOTWEAR STYLES FOR ITS POPULAR COUNTRY, SPORTING, CLASSIC, DRESS, FORMAL AND BRAGANO COLLECTIONS.

THE MOST EXCITING DEVELOPMENT WAS THE INTRODUCTION OF OUR NEWEST FOOTWEAR CATEGORY: COLE-HAAN TENSILE AIR.™ COMBINING COLE-HAAN'S STYLING WITH NIKE'S EXCLUSIVE PATENTED TECHNOLOGY, THE TENSILE AIR™ COLLECTION REPRESENTS A DRAMATIC INNOVATION IN COMFORT DRESS FOOTWEAR THAT FEELS AS GOOD AS IT LOOKS. IT WAS THE PERFECT COLLABORATION, AND AN IMPRESSIVE EXAMPLE OF PEOPLE WORKING TOGETHER AT THE TOP OF THEIR ART TO CREATE A PRODUCT AT THE TOP OF ITS CATEGORY.

ALSO NEW THIS PAST YEAR WAS THE ACQUISITION OF THE PREVIOUSLY LICENSED COLE-HAAN ACCESSORIES COMPANY. THIS COLLECTION OF PREMIUM-QUALITY BELTS, BRACES AND SMALL LEATHER GOODS IS DESIGNED TO MATCH THE SPECIAL SPIRIT AND STYLING OF OUR FOOTWEAR LIFESTYLE COLLECTIONS.

IT WAS A YEAR OF INNOVATION AND SUCCESS, CHARACTERIZED BY DEDICATED PEOPLE WORKING TOGETHER TO DEVELOP NEW PRODUCTS, OPEN NEW MARKETS AND MEET NEW DEMANDS.

This expression for the Cole-Haan lifestyle; Consumer advertising promotes the image; our Accessories Collection complements the look; and Cole-Haan Tensile Air™ adds a new dimension of comfort and style.

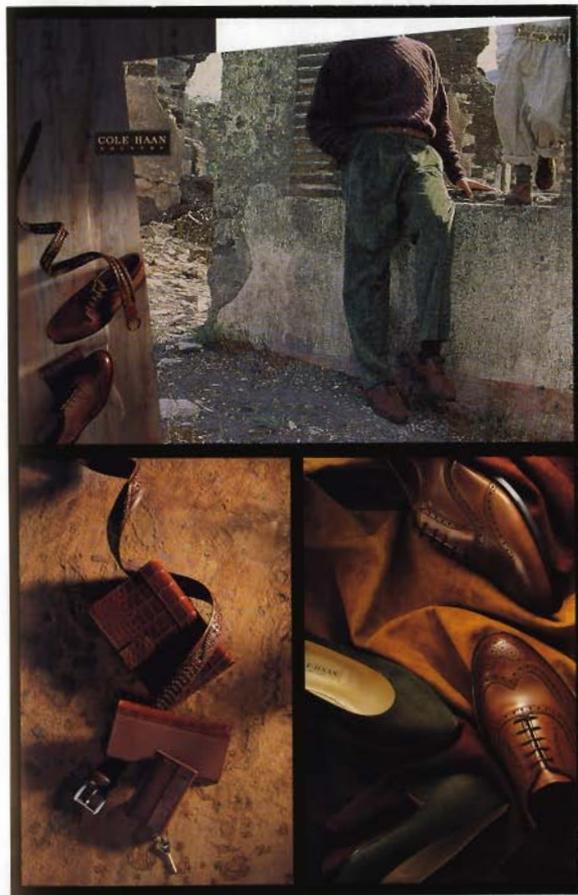
BEFORE AT COLE-HAAN FROM DESIGN AND BUILT TO DELIVER AND CUSTOMER SERVICE. CONTINUE TO WORK TOWARD
 COMMON GOALS. QUALITY IS THE UNDERPINNING OF COLE-HAAN AND MAKES SUCH A STANDARD POSSIBLE. PEOPLE
 WHO HAVE MADE QUALITY BOTH A PERSONAL COMMITMENT AND A CORPORATE GOAL.

BE-HAAN'S EMPLOYEES, EFFORTS HAVE PAID OFF. WE HAVE ANOTHER TREMENDOUS YEAR DEMONSTRATING INCREASED
 GROWTH AND PROFITABILITY. WITH REVENUES FOR THE YEAR TOPPING \$111 MILLION. IN THE OVER LAST YEAR. DURING THIS
 BIG GROWTH YEAR, COLE-HAAN CONTINUED ITS INNOVATIVE FLEETWEAR APPROACH, CREATING DIVERSED CASUAL
 AND DRESS FOOTWEAR STYLES FOR ITS POPULAR COUNTRY SPORTING, CLASSIC, BREEZY, FORMAL AND BRAGGADOCIONE.

IS MOST EXCITING DEVELOPMENT WAS THE INTRODUCTION OF OUR WINTER FOOTWEAR CATEGORY. COLE-HAAN TENSILE AIR™
 BRINGING COLE-HAAN'S STYLING WITH NIKE'S EXCLUSIVE PATENTED TECHNOLOGY, THE TENSILE AIR™ COLLECTION REPRESENTS
 DRAMATIC INNOVATION IN COMFORT. BREEZY FOOTWEAR THAT FEELS AS GOOD AS IT LOOKS. IT WAS THE PERFECT COLLABORATION
 OF TWO AND AN IMPRESSIVE EXAMPLE OF PEOPLE WORKING TOGETHER AT THE TOP OF THEIR FIELD TO CREATE A PRODUCT AT THE
 TOP OF ITS CATEGORY.

SO NOW THIS LAST YEAR WAS THE ACQUISITION OF THE PATENTED LICENSED COLE-HAAN ACCESSORIES COMPANY. THIS
 EXPANSION OF BRINGING QUALITY BELTS, BRACES AND SMALL LEATHER GOODS IS DESIGNED TO MATCH THE SPECIAL SPIRIT
 OF STYLING OF OUR FOOTWEAR FLEETWEAR COLLECTIONS.

WAS A YEAR OF INNOVATION AND SUCCESS, CHARACTERIZED BY DEDICATED PEOPLE WORKING TOGETHER TO DEVELOP NEW
 PRODUCTS, OPEN NEW MARKETS AND MEET NEW CHALLENGES.



New expression for the Cole-Haan lifestyle; Cosentino advertisement; personifies the look; our Accessories Collection completes the look; and Cole-Haan Tensile Air™ adds a new dimension of comfort and style.

international

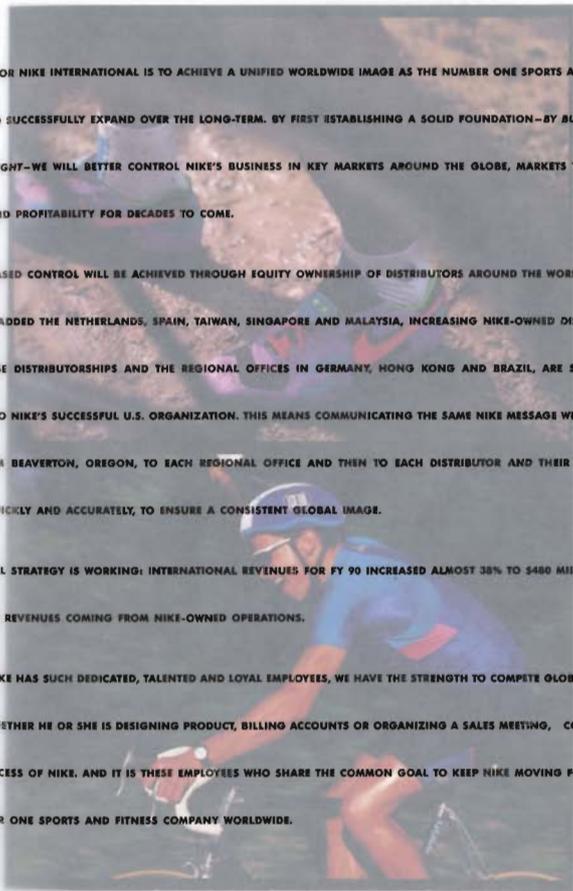


THE GOAL FOR NIKE INTERNATIONAL IS TO ACHIEVE A UNIFIED WORLDWIDE IMAGE AS THE NUMBER ONE SPORTS AND FITNESS BRAND AND SUCCESSFULLY EXPAND OVER THE LONG-TERM. BY FIRST ESTABLISHING A SOLID FOUNDATION—BY BUILDING THE BUSINESS RIGHT—WE WILL BETTER CONTROL NIKE'S BUSINESS IN KEY MARKETS AROUND THE GLOBE, MARKETS THAT OFFER GROWTH AND PROFITABILITY FOR DECADES TO COME.

THIS INCREASED CONTROL WILL BE ACHIEVED THROUGH EQUITY OWNERSHIP OF DISTRIBUTORS AROUND THE WORLD. DURING 1990, NIKE ADDED THE NETHERLANDS, SPAIN, TAIWAN, SINGAPORE AND MALAYSIA, INCREASING NIKE-OWNED DISTRIBUTORS TO 13. THESE DISTRIBUTORSHIPS AND THE REGIONAL OFFICES IN GERMANY, HONG KONG AND BRAZIL, ARE STRUCTURED SIMILARLY TO NIKE'S SUCCESSFUL U.S. ORGANIZATION. THIS MEANS COMMUNICATING THE SAME NIKE MESSAGE WHICH ORIGINATES FROM BEAVERTON, OREGON, TO EACH REGIONAL OFFICE AND THEN TO EACH DISTRIBUTOR AND THEIR RESPECTIVE MARKET, QUICKLY AND ACCURATELY, TO ENSURE A CONSISTENT GLOBAL IMAGE.

OUR GLOBAL STRATEGY IS WORKING: INTERNATIONAL REVENUES FOR FY 90 INCREASED ALMOST 38% TO \$480 MILLION, WITH 80% OF THE REVENUES COMING FROM NIKE-OWNED OPERATIONS.

BECAUSE NIKE HAS SUCH DEDICATED, TALENTED AND LOYAL EMPLOYEES, WE HAVE THE STRENGTH TO COMPETE GLOBALLY. EVERY PERSON, WHETHER HE OR SHE IS DESIGNING PRODUCT, BILLING ACCOUNTS OR ORGANIZING A SALES MEETING, CONTRIBUTES TO THE SUCCESS OF NIKE. AND IT IS THESE EMPLOYEES WHO SHARE THE COMMON GOAL TO KEEP NIKE MOVING FORWARD AS THE NUMBER ONE SPORTS AND FITNESS COMPANY WORLDWIDE.



With the global market expanding more quickly than ever, NIKE plans to seek more growth in Europe, Asia and Latin America with a variety of athletic products, including our Cycling line and apparel.

HIGHLIGHTS
Select Financial Data

	1990	1989	1988	1987	1986
	<i>(in thousands, except per share data)</i>				
<i>Year Ended May 31:</i>					
Revenues	\$2,235,244	\$1,710,803	\$1,203,440	\$877,557	\$1,069,222
Net income	242,958	167,847	101,695	35,879	59,211
Net income per common share	6.42	4.45	2.70	.93	1.55
Cash dividends declared per common share	.75	.55	.40	.40	.40
<i>As May 31:</i>					
Working capital	\$ 564,321	\$ 422,478	\$ 298,816	\$325,200	\$ 278,784
Total assets	1,094,552	825,410	709,095	511,843	476,838
Long-term debts	25,941	34,054	30,506	35,202	15,300
Redeemable Preferred Stock	300	300	300	300	300
Common shareholders' equity	784,219	561,804	411,774	338,017	316,846

Select Quarterly Financial Data

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1990	1989	1990	1989	1990	1989	1990	1989
	<i>(in thousands, except per share data)</i>							
Revenues	\$602,648	\$510,686	\$445,705	\$322,033	\$577,869	\$464,665	\$609,022	\$415,421
Gross profit	228,275	185,536	164,047	116,922	210,940	171,739	238,810	161,775
Net income	75,854	56,986	36,777	24,775	63,105	48,828	67,222	36,458
Net income per common share	2.01	1.52	.97	.66	1.67	1.30	1.77	.97
Dividends declared per common share	.15	.10	.20	.15	.20	.15	.20	.15
<i>Price range of common stock:</i>								
High	52 1/4	29 1/4	69 1/4	34 1/4	59 1/4	48 3/4	83	39 1/4
Low	38	23 1/4	31 1/4	24 1/4	47 1/4	24 1/4	54 1/4	29 1/4

The Company's Class B Common Stock is traded in the NASDAQ National Market System under the NASDAQ symbol NIKE. As May 31, 1990, there were 29 security dealers making a market in the stock and there were approximately 5,700 shareholders of record.

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

- Consolidated revenues exceeded \$2.2 billion, a 31% improvement over the Company's previous high achieved in 1989 and an 86% increase over 1988.
- Consolidated net income of \$243 million or \$6.42 per share represents record earnings for the third consecutive year, an increase of 45% over 1989 net income of \$167 million or \$4.45 per share and a 139% increase over 1988 net income of \$101.7 million or \$2.70 per share.

Results of Operations

Increased revenues and improved gross margins highlighted the earnings growth in 1990. Domestic footwear pairings shipments in 1990 rose 15% over the previous year, while the average sales price per pair increased 12%. The increase in sales price is attributable to a larger percentage of sales of high-end products. Domestic apparel and foreign revenues rose 28% and 38%, respectively, over the previous year primarily because of increased product demand. Non-athletic includes Cole Haan and NIKE Sport Casual. The approximate breakdown of revenues by product category that follows contains certain amounts restated to conform with 1990 classifications:

	Year Ended May 31,		
	1990	1989	1988
	<i>(in thousands)</i>		
Footwear			
Basketball	\$ 477,300	\$ 414,600	\$ 287,300
Fitness	351,900	237,800	129,000
Running	233,100	202,600	177,900
Racquet	104,400	58,400	60,700
Other	202,200	145,000	102,600
Non-athletic	120,500	95,500	—
Total footwear	1,489,400	1,153,900	757,300
Apparel	266,100	208,200	142,900
Total United States	1,755,500	1,362,100	900,400
Foreign			
Europe	354,300	241,400	233,400
Canada	92,100	52,200	31,500
Other	53,300	55,100	38,100
Total foreign	479,700	348,700	303,000
Total NIKE	\$2,235,200	\$1,710,800	\$1,203,400

Gross margin increased to 38.1% in fiscal 1990 from 37.2% in fiscal 1989 and 33.2% in fiscal 1988, all years in which earnings were also characterized by increased revenues and improved gross margins. Gross margin improvement was primarily attributable to increased sales of higher margin technical products, increased management focus on improving product margins, sales strength across all product categories and sound inventory management.

Selling and administrative expenses in 1990 exceeded those in each of the previous two years primarily due to increases in sales volume related expenses and in advertising. Total selling and administrative expenses as a percentage of revenues were 20.3% compared to 20.7% in 1989 and 20.5% in 1988.

Interest expense decreased 25% from fiscal 1989 as a result of decreased borrowings and capitalization of interest relating to the construction of the Company's world headquarters building. The funding of the acquisition of Cole Haan 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 1990 and 1988, interest

income increased due to an increased investment of cash in short-term instruments. Included as other income in 1988 is \$14 million received from the U.S. Government in settlement of litigation related to U.S. Customs duty, increasing earnings per share by \$.23, as disclosed in Note 4 of the Consolidated Financial Statements.

The Company's effective income tax rate for fiscal 1990 and 1989 was 38%, and 39% in 1988. The tax rate exceeds the top statutory federal rate primarily due to state income taxes.

Worldwide orders for athletic footwear and apparel scheduled for delivery from June through November 1990 are approximately 42% higher in dollars than such orders booked in the comparable period of the prior year. Domestic athletic footwear orders are up 38%, domestic apparel orders are up 27% and foreign footwear and apparel orders are up 70%. These orders are not necessarily indicative of total revenues for subsequent periods because the mix of advance orders and "at once" shipments may vary significantly from quarter to quarter and year to year.

Liquidity and Capital Resources

The Company's financial condition remains strong. During 1990, assets surpassed \$1 billion for the first time in the Company's history, climbing to \$1.1 billion at May 31, 1990 from \$825 million at the end of the previous year. Cash and equivalents at May 31, 1990 totalled \$90 million, compared to \$86 million at May 31, 1989. Working capital at May 31, 1990 increased \$142 million over the prior year, a 34% rise, primarily because of increases in accounts receivable and inventory offset partially by increases in accounts payable and accrued liabilities. The current ratio at May 31, 1990 was 3.1:1 compared to 3.0:1 at May 31, 1989.

The increase in inventory over the previous year is attributable to a higher footwear average unit cost and to an increased level of domestic apparel and foreign inventories necessary to support the high volume of orders for the first quarter of fiscal 1990. Footwear quantities at May 31, 1990 are slightly lower than quantities on hand at May 31, 1989. Inventory turned 5.2 times in 1990 compared to 5.1 times in 1989. Accounts receivable have increased in proportion to 1990 revenue growth while the aging of domestic receivables has improved to 98% in the current to thirty days aging category at May 31, 1990 compared to 94% at May 31, 1989. Increases in accounts payable and accrued liabilities are attributable to higher inventory levels and increased operations.

Capital expenditures for 1990 aggregated \$87 million, primarily attributable to the construction of a new world headquarters facility. In 1989 and 1988, capital expenditures were \$42 million and \$25 million respectively. The expenditures in 1989 were primarily attributable to the construction of the world headquarters, the acquisition of the formerly leased eastern regional distribution facility and electronic data processing equipment purchases. 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 \$147 million. To date, the Company has expended \$81 million on the project and there are current construction and purchase commitments approximating \$24 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 and to \$.20 per share in the second quarter of fiscal 1990. Dividends were declared in all four quarters during fiscal 1990. Based upon currently projected earnings and cash flow requirements, the Company anticipates continuing a dividend.

During 1989, the Company received ratings of A2 from Standard and Poor's Corporation and P2 from Moody's Investors Service for a commercial paper program which is required to be supported by committed or uncommitted lines of credit. There were no amounts outstanding under these programs at May 31, 1990 and 1989. The Company had \$100 million at May 31, 1990 and \$150 million as of July 1, 1990 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. NIKE's ratio of debt to equity at May 31, 1990 is .4:1 compared to .5:1 at May 31, 1989 and .7:1 at May 31, 1988. Management believes that funds generated by operations, together with currently available resources, will adequately finance 1991 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 outside 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 9, 1990

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, 1990 and 1989; and the results of their operations and their cash flows for each of the three years in the period ended May 31, 1990, 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,		
	1990	1989	1988
Revenues	\$2,235,244	\$1,710,803	\$1,203,440
Costs and expenses:			
Cost of sales	1,384,172	1,074,831	803,380
Selling and administrative	454,521	354,825	246,583
Interest (Notes 5, 6 and 7)	10,437	13,949	8,004
Other (income) expense (Notes 4, 11, and 12)	(7,264)	(5,449)	(20,722)
	<u>1,841,886</u>	<u>1,440,156</u>	<u>1,037,245</u>
Income before income taxes	393,338	270,647	166,195
Income taxes (Note 8)	150,400	103,600	64,500
Net income	<u>\$ 242,938</u>	<u>\$ 167,047</u>	<u>\$ 101,695</u>
Net income per common share (Note 1)	<u>\$ 6.42</u>	<u>\$ 4.45</u>	<u>\$ 2.70</u>
Average number of common and common equivalent shares (Note 1)	<u>37,814</u>	<u>37,572</u>	<u>37,639</u>

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

NIKE, INC.
CONSOLIDATED BALANCE SHEET (in thousands)

	May 31,	
	1990	1989
Assets		
Current Assets:		
Cash and equivalents	\$ 90,449	\$ 85,749
Accounts receivable, less allowance for doubtful accounts of \$10,624 and \$7,824	400,877	296,350
Inventories (Note 2)	309,476	222,924
Deferred income taxes (Note 8)	17,029	18,504
Prepaid expenses	19,851	14,854
Total current assets	837,682	638,381
Property, plant and equipment (Notes 5 and 7)	238,461	154,314
Less accumulated depreciation	78,797	64,332
	159,664	89,982
Goodwill (Notes 1 and 3)	81,021	81,899
Other assets	16,185	15,148
	<u>\$1,094,552</u>	<u>\$825,410</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt (Note 7)	\$ 8,792	\$ 1,884
Notes payable (Note 6)	31,102	39,170
Accounts payable (Note 6)	107,423	71,105
Accrued liabilities	94,939	76,543
Income taxes payable	30,905	27,201
Total current liabilities	273,161	215,903
Long-term debt (Note 7)	25,941	34,051
Non-current deferred income taxes and purchased tax benefits (Note 8)	10,931	13,352
Commitments and contingencies (Note 13)	—	—
Redeemable Preferred Stock (Note 9)	300	300
Shareholders' equity (Note 10):		
Common Stock at stated value:		
Class A convertible — 14,051 and 14,295 shares outstanding	168	171
Class B — 23,435 and 23,004 shares outstanding	2,706	2,700
Capital in excess of stated value	78,582	74,227
Foreign currency translation adjustment	1,055	(2,156)
Retained earnings	701,728	486,862
	784,219	561,804
	<u>\$1,094,552</u>	<u>\$825,410</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,		
	1990	1989	1988
Cash provided (used) by operations:			
Net income	\$242,958	\$167,047	\$101,695
Income charges (credits) not affecting cash:			
Depreciation	17,130	14,775	14,020
Deferred income taxes and purchased tax benefits	(946)	(8,532)	(211)
Other, including amortization	5,591	3,752	432
Changes in certain working capital components:			
Increase in inventory	(86,552)	(24,454)	(60,082)
Increase in accounts receivable	(104,527)	(37,957)	(64,187)
Increase in other current assets	(4,997)	(2,061)	(5,624)
Increase in accounts payable, accrued liabilities and income taxes payable	58,418	56,871	32,976
Cash provided by operations	127,075	169,441	19,019
Cash provided (used) by investing activities:			
Additions to property, plant and equipment	(87,195)	(42,022)	(25,513)
Disposals of property, plant and equipment	810	2,565	8,863
Acquisition of Cole Haan:			
Goodwill	—	—	(82,044)
Net assets acquired	—	—	(13,086)
Additions to other assets	(3,044)	(1,014)	(1,445)
Cash used by investing activities	(89,429)	(40,471)	(113,225)
Cash provided (used) by financing activities:			
Additions to long-term debt	903	—	12
Reductions in long-term debt including current portion	(2,105)	(4,019)	(11,693)
Increase (decrease) in notes payable	(8,068)	(96,045)	82,185
Proceeds from exercise of options	1,652	2,517	2,262
Issuance of common stock	—	—	5,813
Dividends—common and preferred	(28,092)	(20,510)	(14,904)
Purchase and retirement of common stock	—	—	(21,890)
Cash (used) provided by financing activities	(35,710)	(118,057)	41,785
Effect of exchange rate changes on cash	2,764	(521)	911
Net increase (decrease) in cash and equivalents	4,700	10,392	(51,510)
Cash and equivalents, beginning of year	85,749	75,357	126,867
Cash and equivalents, end of year	<u>\$ 90,449</u>	<u>\$ 85,749</u>	<u>\$ 75,357</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest (net of amount capitalized)	\$ 10,600	\$ 14,700	\$ 9,300
Income taxes	145,900	90,700	65,800
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		<u>\$ 8,075</u>	

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, 1987	14,598	\$174	23,340	\$2,705	\$85,542	\$(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
Stock options exercised	114	2	73	1	4,355			4,358
Conversion to Class B Common Stock	(358)	(5)	358	5				--
Translation of statements of foreign operations						3,191		3,191
Net income—year ended May 31, 1990							242,958	242,958
Dividends on Redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(28,062)	(28,062)
Balance at May 31, 1990	14,051	\$168	23,435	\$2,706	\$78,582	\$1,035	\$701,728	\$784,219

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 domestic inventories. Foreign inventories were valued on a LIFO basis prior to fiscal 1990, and on a first-in, first-out (FIFO) basis thereafter. The difference between LIFO and FIFO valuation for foreign inventories is not significant.

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, based upon estimated useful lives ranging from three to thirty-two years.

Goodwill:

At May 31, 1990 the Company's excess of purchase cost over the fair value of net assets of businesses acquired was \$81,021,000, net of amortization of \$8,362,000. This excess is being amortized on a straight-line basis principally over 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, 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 1993, as permitted under the most recent 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,	
	1990	1989
	<i>(in thousands)</i>	
Finished goods	\$301,346	\$216,033
Work-in-process	6,126	4,708
Raw materials	2,004	2,183
	<u>\$309,476</u>	<u>\$222,924</u>

The excess of replacement cost over LIFO cost approximated \$18,468,000 at May 31, 1990 and \$19,264,000 at May 31, 1989. During 1989 and 1988, 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 and 1988 purchases. For the years ended May 31, 1989 and 1988, the liquidation of LIFO inventory quantities resulted in a (decrease) increase to cost of sales of approximately (\$359,000) and (\$769,000) and to earnings per share of \$.01 and \$.01 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:

	1988
Revenues (in thousands)	\$1,268,430
Net income (in thousands)	\$99,299
Earnings per share	\$2.64

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 period, or of results which may occur in the future.

Note 4—Customs Settlement:

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, increasing earnings per share by \$.23. 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,	
	1990	1989
	<i>(in thousands)</i>	
Land	\$ 11,199	\$ 10,829
Buildings	20,077	19,272
Machinery and equipment	108,358	90,752
Leasehold improvements	13,183	10,275
Construction in process	85,644	23,186
	238,461	154,314
Less accumulated depreciation	78,797	64,332
	<u>\$159,664</u>	<u>\$ 89,982</u>

Capitalized interest expense relating to construction of the Company's world headquarters and included in construction in process is \$3,780,000, \$540,000 and \$202,000 for the fiscal years ended May 31, 1990, 1989 and 1988, respectively.

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, 1990	\$ 716	8 1/2%	\$50,386	12 1/2%	\$39,050	8 1/2%
May 31, 1989	\$12,606	9 1/2%	\$26,564	9 3/4%	\$25,204	11.0%

At May 31, 1990 and 1989, NIKE had no outstanding borrowings under its \$100 million unsecured multiple option facility with nine banks. Effective July 1, 1990, the Company terminated that facility and entered into a new \$150 million unsecured multiple option credit facility with fifteen banks. This agreement contains optional borrowing alternatives consisting of a committed revolving loan facility and a competitive bid facility. The interest rate charged on this agreement is determined by the borrowing option and under the committed revolving loan facility is either the Prime Rate, London Interbank Offered Rate (LIBOR) plus .20%, or a fixed CD Rate plus .325%. The agreement provides for annual fees of .11% of the total commitment. Under the agreement, the Company must maintain, among other things, certain minimum specified financial ratios and balances. A domestic subsidiary has \$716,000 and \$7,606,000 outstanding at May 31, 1990 and May 31, 1989, respectively, under unsecured uncommitted short-term credit agreements. There were no other domestic borrowings outstanding at May 31, 1990. At May 31, 1989, \$5 million was outstanding under unsecured, uncommitted short-term credit facilities with several banks.

During 1989, the Company received approval and ratings to issue commercial paper which is required to be supported by committed or uncommitted lines of credit. At May 31, 1990 and 1989, there were no amounts outstanding under these arrangements.

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 the ninety day LIBOR rate as of the beginning of the month of the invoice date, plus .30%.

Note 7—Long-term debt:

Long-term debt includes the following:

	May 31,	
	1990	1989
	<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	1,140	1,870
14% assumed loan, secured by certain real estate, due in installments through February 1991	2,268	2,482
12.25% assumed loan, secured by certain real estate, due in installments through February 1991	5,135	5,303
Other	1,190	1,280
Total	34,733	35,935
Less current maturities	8,792	1,884
	<u>\$25,941</u>	<u>\$34,051</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 1991 through 1995, respectively, are \$8,792,000, \$411,000, \$365,000, \$25,165,000 and \$0.

Note 8—Income taxes:

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

	Year Ended May 31,		
	1990	1989	1988
	<i>(in thousands)</i>		
Income before income taxes:			
United States	\$500,924	\$207,815	\$124,519
Foreign	92,434	62,832	41,676
	<u>\$593,358</u>	<u>\$270,647</u>	<u>\$166,195</u>
Provision for income taxes:			
Current:			
United States			
Federal	\$102,535	\$ 72,785	\$ 43,830
State	21,567	15,720	8,296
Foreign	29,689	19,499	14,019
	153,791	108,004	66,145
Deferred:			
United States			
Federal	(4,234)	(2,663)	(1,583)
State	(420)	(788)	(265)
Foreign	1,263	(953)	203
	<u>(3,391)</u>	<u>(4,404)</u>	<u>(1,645)</u>
	<u>\$150,400</u>	<u>\$103,600</u>	<u>\$ 64,500</u>

As of May 31, 1990 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,		
	1990	1989	1988
	<i>(in thousands)</i>		
Inventory adjustment to market	\$(1,264)	\$ 130	\$ 1,907
Reserves and accrued liabilities	17	(1,754)	756
Tax basis adjustments to inventory	359	(2,236)	(2,050)
Purchased tax benefits	(441)	(362)	(293)
Deferred compensation	(40)	(1,735)	(644)
Barter credits	—	1,120	(1,583)
Undistributed earnings of foreign subsidiaries	(1,150)	1,784	258
Bad debts	(1,378)	(915)	(36)
Other, net	506	(436)	40
	<u>\$(3,391)</u>	<u>\$(4,404)</u>	<u>\$(1,645)</u>

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

	Year Ended May 31,		
	1990	1989	1988
U.S. Federal statutory rate	34.0%	34.0%	35.0%
State income taxes, net of federal benefit	3.6	3.6	3.3
Tax impact of foreign losses	—	—	(1.7)
Other, net	.6	.7	2.2
Effective income tax rate	<u>38.2%</u>	<u>38.3%</u>	<u>38.8%</u>

During 1982, the Company purchased future tax benefits for \$15,277,000. Tax benefits of \$7,825,000 in excess of the purchase price have been recognized as of May 31, 1990 and are classified as a long-term liability.

Note 9—Redeemable Preferred Stock:

Nissho Iwai American Corporation (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, 1990. 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.

In June, the Company submitted for approval of the shareholders in September 1990, a three-fold increase in the authorized number of shares of both Class A and Class B Common Stock. Subject to that approval, the Company also announced a two-for-one stock split to be effected in the form of a 100% stock dividend on outstanding Class A and Class B Common Stock, payable in October 1990.

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 exercise 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 and a new successor plan will be presented to the shareholders for approval as described in the Company's 1990 Proxy.

The following summarizes the Option Plan transactions for the two years ended May 31, 1990:

	Shares (in thousands)	Option Price Per Share (\$)
Options outstanding May 31, 1988:	419	9.50 to 23.06
Exercised	(144)	9.50 to 22.19
Surrendered	(18)	9.50 to 21.69
Granted	209	21.12 to 39.31
Options outstanding May 31, 1989:	466	9.50 to 39.31
Exercised	(73)	9.50 to 30.31
Surrendered	—	—
Granted	342	40.81 to 67.13
Options outstanding May 31, 1990:	735	9.50 to 67.13
Options exercisable at May 31:		
1990	210	9.50 to 39.31
1989	154	9.50 to 23.06

In addition to the Option Plan, the Company has several agreements outside of the Plan with certain directors and employees. As of May 31, 1990, 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, 1990:

	Shares (in thousands)	Option Price Per Share (\$)
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
Exercised	(114)	.417
Surrendered	—	—
Granted	—	—
Options outstanding May 31, 1990:	89	9.50 to 25.00
Options exercisable at May 31:		
1990	41	9.50 to 25.00
1989	69	.417 to 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 \$6,700,000, \$4,700,000 and \$3,000,000 to the plan are included in other expense in the consolidated financial statements for the years ended May 31, 1990, 1989, and 1988.

Note 12—Interest income:

Included in other income for the three years ended May 31, 1990, 1989, and 1988 is interest income of \$12,324,000, \$7,694,000, and \$9,521,000.

Note 13—Commitments and contingencies:

The Company leases space for its offices, warehouses and retail stores under leases expiring from one to fifteen years after May 31, 1990. Rent expense aggregated \$15,399,000, \$12,179,000, and \$11,605,000 for the years ended May 31, 1990, 1989, and 1988 respectively. Amounts of minimum future annual rental commitments under non-cancellable operating leases in each of the five fiscal years 1991 through 1995 are \$13,050,000, \$11,205,000, \$10,084,000, 9,404,000, \$7,801,000 and in aggregate \$92,239,000.

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 \$147 million. The Company has expended \$81 million to date, and has construction and purchase commitments approximating \$24 million as of May 31, 1990.

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 1990, 1989 and 1988, sales to one major customer amounted to 19%, 16% and 12% of total sales, respectively. 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,		
	1990	1989	1988
	(in thousands)		
Revenues from unrelated entities:			
United States	\$ 1,755,496	\$ 1,362,148	\$ 900,417
Europe	334,275	241,380	233,402
Other foreign	145,473	107,275	69,621
	<u>\$ 2,235,244</u>	<u>\$ 1,710,803</u>	<u>\$ 1,203,440</u>
Inter-geographic revenues:			
United States	\$ 4,765	\$ 1,757	\$ 725
Europe	—	—	—
Other foreign	5,628	4,323	5,008
	<u>\$ 10,393</u>	<u>\$ 6,080</u>	<u>\$ 5,733</u>
Total revenues:			
United States	\$ 1,760,261	\$ 1,363,905	\$ 901,142
Europe	334,275	241,380	233,402
Other foreign	151,101	111,598	74,629
Less inter-geographic revenues	(10,393)	(6,080)	(5,733)
	<u>\$ 2,235,244</u>	<u>\$ 1,710,803</u>	<u>\$ 1,203,440</u>
Operating income:			
United States	\$ 315,246	\$ 230,156	\$ 114,046
Europe	55,098	35,376	37,036
Other foreign	42,880	30,173	13,075
Less corporate, interest and other income (expense) and eliminations	(19,866)	(25,058)	2,058
	<u>\$ 393,358</u>	<u>\$ 270,647</u>	<u>\$ 166,195</u>
Assets:			
United States	\$ 786,775	\$ 600,629	\$ 499,707
Europe	162,383	102,744	94,900
Other foreign	74,329	50,756	51,784
Total identifiable assets	1,023,487	754,129	646,391
Corporate cash and eliminations	71,065	71,281	62,704
Total assets	<u>\$ 1,094,552</u>	<u>\$ 825,410</u>	<u>\$ 709,095</u>

DIRECTORS

William J. Bowman
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 D. DeNazio (4) (3)
President, Harbor Point Associates, Inc., New York, New York

Richard K. Donahue (1)
President and Chief Operating Officer, NIKE, Inc., Beaverton, Oregon

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

Douglas G. Houser (2) (3)
Assistant Secretary, NIKE, Inc., Beaverton—Ballistics, Houser, Bailey, Podgorsky & Higgins, Attorneys, Portland, Oregon

John E. Jaqua (3)
Secretary, NIKE, Inc., Beaverton—Jaqua & Whistley, 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—Personal Committee
(4) Member—Finance Committee

OFFICERS

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

Richard K. Donahue
President and Chief Operating Officer

William J. Bowman
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. Putter
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 Nierbergall
Assistant Secretary

DIVISION VICE PRESIDENTS

Alexander Bodecker
Beaverton, Oregon

John M. de la Forest
Washington, England

Shelley K. Dewey
Beaverton, Oregon

David W. Edwards
Beaverton, Oregon

James T. Gorman
Beaverton, Oregon

Bertrand Gallocheot
Paris, France

Anders Hanson
Stockholm, Sweden

David Kottkamp
Frankfurt, Germany

Bill McIntosh
Cosquiam, British Columbia

Andrew Mooney
Beaverton, Oregon

CREATIVE DIRECTORS

Tinker Hatfield
Footwear, Apparel and Accessories

Bruce J. Kilgore
Advanced Products

ADVISORY COUNCIL

Maurice Lazarus
Chairman of the Board Harvard Community Health Plan, Boston, Massachusetts

John Thompson
Head Basketball Coach Georgetown University, Washington, D.C.

LOCATIONS

Corporate Headquarters

One Bowersman Drive
Beverton, Oregon 97005

United States Sales and Distribution Centers

6400 Winchester Blvd.
Memphis, Tennessee 38138

27255 S.W. Boston Ferry Road
Wilsonville, Oregon 97070

150 Ocean Road
Greenland, New Hampshire 03840

Foreign Sales Administrative Office

10300 S.W. Allen Blvd.
Beverton, Oregon 97005

Canada Sales and Marketing Office

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

European Sales and Marketing Offices

Great Britain
Cushion House
Washington Centre
District 4, Washington
Tyne & Wear NE38 7RN
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Port d'Activité Cergy
St. Christophe BP 8237
F-95801 Cergy Pontoise Cedex
France

Italy
Via Terzi 49/a
I-42100 Reggio Emilia
Italy

Spain
Constitución S/N
APDO 111
08960 Sant Joan Despuig
Spain

SE Asian Sales and Marketing Offices

Taiwan
77th Floor Sun Pdo Ent. Bldg.
169, Chung-Hua E. Rd., SEC-4
Taiwan ROC

SHAREHOLDERS' INFORMATION

Corporate Office

One Bowersman Drive
Beverton, Oregon 97005
(503) 671-6433

Annual Meeting

10 a. m. September 17, 1990
Madrasnath Athletic Club
1849 S.W. Salmon
Portland, Oregon 97205

Independent Accountants

Pricewaterhouse
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. is an equal opportunity employer.



NIKE, Inc.

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