

# NIKE INC

## FORM 10-Q (Quarterly Report)

Filed 10/15/02 for the Period Ending 08/31/02

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

# NIKE INC

## FORM 10-Q (Quarterly Report)

Filed 10/15/2002 For Period Ending 8/31/2002

Address	ONE BOWERMAN DR BEAVERTON, Oregon 97005-6453
Telephone	503-671-3173
CIK	0000320187
Industry	Footwear
Sector	Consumer Cyclical
Fiscal Year	05/31

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the Quarter Ended August 31, 2002  
*Commission file number - 1-10635*

### NIKE, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Yes X No .

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Common Stock shares outstanding as of August 31, 2002 were:

Class A	98,095,361
Class B	167,184,833
	<hr/>
	265,280,194
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### PART 1 - FINANCIAL INFORMATION

#### Item 1. FINANCIAL STATEMENTS

NIKE, Inc.

CONDENSED CONSOLIDATED BALANCE SHEET

	August 31, 2002	May 31, 2002
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 430.0	\$ 575.5
Accounts receivable	2,028.0	1,807.1
Inventories (Note 5)	1,424.8	1,373.8
Deferred income taxes	171.6	140.8
Prepaid expenses and other current assets	249.9	260.5
	<hr/>	<hr/>
Total current assets	4,304.3	4,157.7
Property, plant and equipment	2,814.9	2,741.7
Less accumulated depreciation	1,189.1	1,127.2
	<hr/>	<hr/>
	1,625.8	1,614.5
Identifiable intangible assets and goodwill (Note 2)	184.8	438.7
Deferred income taxes and other assets	241.0	232.1
	<hr/>	<hr/>
	\$6,355.9	\$6,443.0
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 5.6	\$ 55.3
Notes payable	217.4	425.2
Accounts payable	486.6	504.4
Accrued liabilities	917.5	768.3
Income taxes payable	159.5	83.0
	<hr/>	<hr/>
Total current liabilities	1,786.6	1,836.2
Long-term debt	736.3	625.9
Deferred income taxes and other liabilities	160.2	141.6
Commitments and contingencies (Note 7)	--	--
Redeemable preferred stock	0.3	0.3
Shareholders' equity:		
Common stock at stated value:		
Class A convertible-98.1 and 98.1 shares outstanding	0.2	0.2
Class B-167.2 and 168.0 shares outstanding	2.6	2.6
Capital in excess of stated value	543.8	538.7
Unearned stock compensation	(3.7)	(5.1)
Accumulated other comprehensive income	(241.3)	(192.4)
Retained earnings	3,370.9	3,495.0
	<hr/>	<hr/>
Total shareholders' equity	3,672.5	3,839.0
	<hr/>	<hr/>
	\$6,355.9	\$6,443.0
	=====	=====

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

**NIKE, Inc.**

**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

Three Months Ended  
August 31,

---

2002      2001

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(in millions, except per share data)

Revenues	\$2,796.3	\$2,613.7
Costs and expenses:		
Cost of sales	1,639.2	1,584.8
Selling and administrative	799.0	696.2
Interest	10.5	13.0
Other expense, net	13.5	5.5
	<u>2,462.2</u>	<u>2,299.5</u>
Income before income taxes and cumulative effect of accounting change	334.1	314.2
Income taxes	116.9	110.0
	<u>217.2</u>	<u>204.2</u>
Income before cumulative effect of accounting change		
Cumulative effect of accounting change, net of income taxes	266.1	5.0
	<u>266.1</u>	<u>5.0</u>
Net (loss)/income	\$ (48.9)	\$ 199.2
	=====	=====
Basic (loss) earnings per common share (Note 4):		
Before accounting change	0.82	0.76
Cumulative effect of accounting change	(1.00)	(.02)
	<u>(0.18)</u>	<u>0.74</u>
	=====	=====
Diluted (loss) earnings per common share (Note 4):		
Before accounting change	0.81	0.75
Cumulative effect of accounting change	(.99)	(.02)
	<u>(0.18)</u>	<u>0.73</u>
	=====	=====
Dividends declared per common share	\$ 0.12	\$ 0.12
	=====	=====

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

**NIKE, Inc.**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Three Months Ended August 31,	
	2002	2001
	_____	_____
	(in millions)	
Cash provided (used) by operations:		
Net (loss) income	\$ (48.9)	\$ 199.2
Income charges (credits) not affecting cash:		
Cumulative effect of accounting change	266.1	5.0
Depreciation	56.4	53.7
Deferred income taxes	--	(12.5)
Amortization and other	2.1	4.4
Income tax benefit from exercise of stock options	1.1	2.1
Changes in other working capital components	(102.7)	(16.5)
	<u>174.1</u>	<u>235.4</u>
Cash provided by operations	174.1	235.4

Cash provided (used) by investing activities:		
Additions to property, plant and equipment	(43.7)	(57.3)
Disposals of property, plant and equipment	4.8	1.2
(Increase) decrease in other assets	(12.4)	4.3
Increase in other liabilities	1.2	--
Cash used by investing activities	(50.1)	(51.8)
Cash provided (used) by financing activities:		
Proceeds from long-term debt issuance	90.1	249.3
Reductions in long-term debt including current portion	(51.4)	(1.3)
Decrease in notes payable	(207.8)	(305.3)
Proceeds from exercise of options	4.9	4.5
Repurchase of stock	(53.1)	(5.1)
Dividends on common stock	(31.9)	(32.2)
Cash used by financing activities	(249.2)	(90.1)
Effect of exchange rate changes on cash	(20.3)	(32.6)
Net (decrease) increase in cash and equivalents	(145.5)	60.9
Cash and equivalents, May 31, 2002 and 2001	575.5	304.0
Cash and equivalents, August 31, 2002 and 2001	\$ 430.0	\$ 364.9
	=====	=====

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

### NIKE, Inc.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

#### Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim period. The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the three (3) months ended August 31, 2002 are not necessarily indicative of results to be expected for the entire year.

Certain prior year amounts have been reclassified to conform to fiscal year 2003 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

### NOTE 2 - Identifiable Intangible Assets and Goodwill:

#### Adoption of FAS 142

The Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets," (FAS 142) effective June 1, 2002. In accordance with FAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized but instead will be measured for impairment at least annually, or when events indicate that an impairment exists. Intangible assets that are determined to have definite lives will continue to be amortized over their useful lives.

As required by FAS 142, the Company performed impairment tests on goodwill and other intangible assets with indefinite lives, which consisted only of certain trademarks, as of June 1, 2002. As a result of the impairment tests, the Company recorded a \$266.1 million cumulative effect of accounting change. Under FAS 142, goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The Company estimated the fair value of its reporting units by using a combination of discounted cash flow analyses and comparisons with the market values of similar publicly- traded companies.

Included in the Company's \$266.1 million impairment charge was a \$178.5 million charge related to the impairment of the goodwill associated

with the Bauer NIKE Hockey ("Bauer") and Cole Haan reporting units. These reporting units are reflected in the Company's "Other" operating segment. Since the Company's purchase of Bauer in 1995, the hockey equipment and apparel markets have not grown as fast as expected and the in-line skate market has contracted significantly. As a result, we determined that the goodwill acquired at Bauer had been impaired. The goodwill impairment at Cole Haan reflected the significantly lower fair value calculated on the basis of reduced operating income in the year following the September 11, 2001 terrorist attacks.

The remaining \$87.6 million of the impairment charge relates to trademarks associated with Bauer. Under FAS 142, impairment of an indefinite-lived asset exists if the net book value of the asset exceeds its fair value. The Company estimated the fair value of trademarks using the relief-from-royalty approach, which is a standard form of discounted cash flow analysis typically used for the valuation of trademarks. The impairment of the Bauer trademarks reflects the same circumstances as described above related to the Bauer goodwill impairment.

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of August 31 and May 31, 2002:

	August 31, 2002		May 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(in millions)				
Intangible assets subject to amortization:				
Patents	\$ 23.6	\$ (9.2)	\$ 23.1	\$ (8.8)
Trademarks	12.9	(10.2)	12.0	(9.8)
Other	7.5	(0.5)	7.5	(0.2)
Total	<u>\$ 44.0</u>	<u>\$ (19.9)</u>	<u>\$ 42.6</u>	<u>\$ (18.8)</u>
	=====	=====	=====	=====
	Carrying Amount		Carrying Amount	
Intangible assets not subject to amortization:				
Goodwill	\$ 66.1		\$ 232.7	
Trademarks	94.6		182.2	
Total	<u>\$ 160.7</u>		<u>\$ 414.9</u>	
	=====		=====	

Amortization expense, which is included in selling and administrative expense, was \$1.1 million during the quarter ended August 31, 2002. The estimated amortization expense for intangible assets subject to amortization for each of the succeeding years ended May 31, 2003 through May 31, 2007 are as follows: 2003: \$3.2 million; 2004: \$2.8 million; 2005: \$2.6 million; 2006: \$2.5 million; 2007: \$2.0 million.

The results for the quarter ended August 31, 2001 do not reflect the provisions of FAS 142. The reported net income before cumulative effect of accounting change was \$204.2 million for the quarter ended August 31, 2001. Had the Company adopted FAS 142 on June 1, 2001 we would have recorded net income before cumulative accounting change of \$207.5 million as a result of not recording \$2.2 million in goodwill amortization and \$1.1 million in trademark amortization, and basic and diluted earnings per common share before accounting change would have increased \$0.01.

### NOTE 3 - Comprehensive (Loss) Income:

Comprehensive (loss) income, net of taxes, is as follows:

	Three Months Ended August 31,	
	2002	2001
(in millions)		
Net (Loss) Income	\$ (48.9)	\$ 199.2
Other Comprehensive (Loss) Income:		
Change in cumulative translation adjustment and other	12.3	18.1

Recognition in net (loss) income of previously deferred unrealized loss on securities, due to accounting change	--	3.4
Changes due to cash flow hedging instruments:		
Initial recognition of net deferred gain as of June 1, 2001 due to accounting change	--	53.4
Loss on hedge derivatives	(84.2)	(36.3)
Reclassification to net (loss) income of previously deferred gains and losses related to hedge derivative instruments	23.0	(6.6)
	<hr/>	<hr/>
Other Comprehensive (Loss) Income	(48.9)	32.0
	<hr/>	<hr/>
Total Comprehensive (Loss) Income	\$ (97.8)	\$231.2
	=====	=====

#### NOTE 4 - Earnings (Loss) Per Common Share:

The following represents a reconciliation from basic (loss) earnings per share to diluted (loss) earnings per share. Options to purchase 4.3 million and 8.1 million shares of common stock were outstanding at August 31, 2002 and August 31, 2001, respectively, but were not included in the computation of diluted (loss) earnings per share because the options' exercise prices were greater than the average market price of common shares and, therefore, the effect would be antidilutive.

	Three Months Ended August 31,	
	2002	2001
	<hr/>	<hr/>
	(in millions, except per share data)	
Determination of shares:		
Average common shares outstanding	265.3	268.6
Assumed conversion of dilutive stock options and awards	3.8	3.0
	<hr/>	<hr/>
Diluted average common shares outstanding	269.1	271.6
	=====	=====
Basic (loss) earnings per common share:		
Before cumulative effect of accounting change	0.82	0.76
Cumulative effect of accounting change	(1.00)	(.02)
	<hr/>	<hr/>
	\$ (0.18)	\$ 0.74
	=====	=====
Diluted (loss) earnings per common share:		
Before cumulative effect of accounting change	0.81	0.75
Cumulative effect of accounting change	(.99)	(.02)
	<hr/>	<hr/>
	\$ (0.18)	\$ 0.73
	=====	=====

#### NOTE 5 - Inventories:

Inventories by major classification are as follows:

	Aug. 31, 2002	May 31, 2002
	<hr/>	<hr/>
	(in millions)	
Finished goods	\$1,398.4	\$1,348.2

Work-in-progress	12.8	13.0
Raw materials	13.6	12.6
	<hr/>	<hr/>
	\$1,424.8	\$1,373.8
	=====	=====

## NOTE 6 - Operating Segments:

The Company's operating segments are evidence of the structure of the Company's internal organization. The major segments are defined by geographic regions with operations participating in NIKE brand sales activity. Each NIKE brand geographic segment operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment. The "Other" category shown below represents activities of Cole Haan Holdings, Inc., Bauer NIKE Hockey, Inc., Hurley International LLC, NIKE Golf, and NIKE IHM, Inc., which are considered immaterial for individual disclosure.

In prior years, operating activity for NIKE Golf was classified within each region. Effective June 1, 2002, NIKE Golf revenues and income from the Company's largest golf markets have been reclassified to the Other category, which reflects that the Company has begun managing these operations as a separate business. Certain NIKE Golf inventories, receivables, and property, plant, and equipment continue to be managed by the regions, and as a result, no reclassifications for these balances have been made. NIKE Golf information for the applicable prior year period has been reclassified to conform to the current year presentation.

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

Net revenues as shown below represent sales to external customers for each segment. Intercompany revenues have been eliminated and are immaterial for separate disclosure. The Company evaluates performance of individual operating segments based on management pre-tax income. On a consolidated basis, this amount represents Income before income taxes and cumulative effect of accounting change as shown in the Condensed Consolidated Statement of Operations. Reconciling items for management pre-tax income represent corporate costs that are not allocated to the operating segments for management reporting and intercompany eliminations for specific items in the Condensed Consolidated Statement of Operations.

Accounts receivable, inventory, and property, plant, and equipment for operating segments are regularly reviewed and therefore provided below:

	Three Months Ended August 31,	
	2002	2001
	<hr/>	<hr/>
Net Revenue		
USA	\$1,282.7	\$1,263.3
EUROPE, MIDDLE EAST, AFRICA	869.3	752.9
ASIA PACIFIC	308.4	249.1
AMERICAS	142.3	160.1
OTHER	193.6	188.3
	<hr/>	<hr/>
	\$2,796.3	\$2,613.7
	=====	=====
Management Pre-Tax Income		
USA	\$ 283.3	\$ 280.1
EUROPE, MIDDLE EAST, AFRICA	162.1	131.6
ASIA PACIFIC	50.9	45.0
AMERICAS	25.2	26.9
OTHER	(8.4)	8.0
CORPORATE	(179.0)	(177.4)
	<hr/>	<hr/>
	\$ 334.1	\$ 314.2
	=====	=====
	Aug. 31,	May 31,
	2002	2002
	<hr/>	<hr/>
Accounts Receivable, net		
USA	\$ 729.0	\$ 654.3
EUROPE, MIDDLE EAST, AFRICA	779.9	570.8
ASIA PACIFIC	170.9	189.6
AMERICAS	118.2	125.3
OTHER	210.6	248.3
CORPORATE	19.4	18.8
	<hr/>	<hr/>

	\$2,028.0	\$1,807.1
	=====	=====
Inventories, net		
USA	\$ 603.0	\$ 613.5
EUROPE, MIDDLE EAST, AFRICA	393.0	336.5
ASIA PACIFIC	138.0	149.0
AMERICAS	57.3	62.9
OTHER	220.5	201.5
CORPORATE	13.0	10.4
	-----	-----
	1,424.8	\$1,373.8
	=====	=====
Property, Plant and Equipment, net		
USA	\$ 234.9	\$ 241.2
EUROPE, MIDDLE EAST, AFRICA	217.2	212.2
ASIA PACIFIC	391.2	378.4
AMERICAS	11.7	12.4
OTHER	111.6	113.0
CORPORATE	659.2	657.3
	-----	-----
	\$1,625.8	\$1,614.5
	=====	=====

## NOTE 7 - Commitments and Contingencies:

At August 31, 2002, the Company had letters of credit outstanding totaling \$682.7 million. These letters of credit were issued for the purchase of inventory.

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

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

### Critical Accounting Policies

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

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

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

### Revenue Recognition

We record wholesale revenues when title passes and the risks and rewards of ownership have passed to the customer, based on the terms of sale. Title passes generally upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale.

In some instances, we ship product directly from our supplier to the customer. In these cases, we recognize revenue when the product is delivered to the customer. Our revenues may fluctuate in cases when our customers delay accepting shipment of product for periods up to several weeks.

In certain countries outside of the U.S., precise information regarding the date of receipt by the customer is not readily available. In these cases, we estimate the date of receipt by the customer based upon historical delivery times by geographic location. On the basis of our tests of actual transactions, we have no indication that these estimates have been materially inaccurate historically.

As part of our revenue recognition policy, we record estimated sales returns and miscellaneous claims from customers as reductions to revenues at the time revenues are recorded. We base our estimates on historical rates of product returns and claims, and specific identification of outstanding claims and outstanding returns not yet received from customers. Actual returns and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and claims were significantly greater or lower than the reserves we had established, we would record a reduction or increase to net revenues in the period in which we made such determination.

### **Reserve for Uncollectible Accounts Receivable**

We make ongoing estimates relating to the collectibility of our accounts receivable and maintain a reserve for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the reserve, we consider our historical level of credit losses and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Since we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event we determined that a smaller or larger reserve was appropriate, we would record a credit or a charge to selling and administrative expense in the period in which we made such a determination.

### **Inventory Reserves**

We also make ongoing estimates relating to the market value of inventories, based upon our assumptions about future demand and market conditions. If we estimate that the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated market value. This reserve is recorded as a charge to cost of sales. If changes in market conditions result in reductions in the estimated market value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination and record a charge to cost of sales.

### **Contingent Payments under Endorsement Contracts**

A significant portion of our demand creation (advertising and promotion) expense relates to payments under endorsement contracts. In general, endorsement payments are expensed uniformly over the term of the contract. However, certain contract elements may be accounted for differently, based upon the facts and circumstances of each individual contract.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g. winning a championship). We record selling and administrative expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g. maintaining a top ranking in a sport for a year). These amounts are reported in selling and administrative expense when we determine that it is probable that the specified level of performance will be maintained throughout the period. In these instances, to the extent that actual payments to the endorser differ from our estimate due to changes in the endorser's athletic performance, increased or decreased selling and administrative expense may be reported in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percentage of sales of particular products. We expense these payments in cost of sales as the related sales are made. In certain contracts, we offer minimum guaranteed royalty payments. For contractual obligations for which we estimate that we will not meet the minimum guaranteed amount of royalty fees through sales of product, we record in selling and administrative expense the minimum guaranteed payment amount uniformly over the remaining royalty term.

### **Property, Plant and Equipment**

Property, plant and equipment, including buildings, equipment, and computer hardware and software is recorded at cost (including, in some cases, the cost of internal labor) and is depreciated over its estimated useful life. Changes in circumstances (such as technological advances or changes to our business operations) can result in differences between the actual and estimated useful lives. In those cases where we determine that the useful life of a long-lived asset should be shortened, we increase depreciation expense over the remaining useful life to depreciate the asset's net book value to its salvage value.

When events or circumstances indicate that the carrying value of property, plant and equipment may be impaired, we estimate the future undiscounted cash flows to be derived from the asset to determine whether or not a potential impairment exists. If the carrying value exceeds our estimate of future undiscounted cash flows, we then calculate the impairment as the excess of the carrying value of the asset over our estimate of its fair market value. Any impairment charges are recorded as other expense. We estimate future undiscounted cash flows using assumptions about our expected future operating performance. Our estimates of undiscounted cash flows may change in future periods due to, among other things, technological changes, economic conditions, or changes to our business operations. Such changes may result in impairment charges in the period in which such changes in estimates are made.

### **Goodwill and Other Intangible Assets**

We adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets, (FAS 142) effective for the first quarter of fiscal 2003. In accordance with FAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized but instead

will be measured for impairment at least annually, or when events indicate that an impairment exists. As required by FAS 142, in our impairment tests for goodwill and other indefinite-lived intangible assets, we compare the estimated fair value of goodwill and other intangible assets to the carrying value. If the carrying value exceeds our estimate of fair value, we calculate impairment as the excess of the carrying value over our estimate of fair value. Our estimates of fair value utilized in goodwill and other indefinite-lived intangible asset tests may be based upon a number of factors, including our assumptions about the expected future operating performance of our reporting units. Our estimates may change in future periods due to, among other things, technological change, economic conditions, or changes to our business operations. Such changes may result in impairment charges recorded in future periods.

As discussed further below, upon adoption of FAS 142 this quarter, we recorded an impairment charge related to goodwill and other indefinite-lived intangible assets of \$266.1 million. This charge is shown on our statement of operations as the cumulative effect of accounting change. In future periods, any goodwill impairment charges would be classified as a separate line item on our statement of operations as part of income from continuing operations. Other indefinite-lived intangible asset impairment charges would be classified as other expense, also as part of income from continuing operations.

Intangible assets that are determined to have definite lives will continue to be amortized over their useful lives and are measured for impairment only when events or circumstances indicate the carrying value may be impaired. In these cases, we estimate the future undiscounted cash flows to be derived from the asset to determine whether or not a potential impairment exists. If the carrying value exceeds our estimate of future undiscounted cash flows, we then calculate the impairment as the excess of the carrying value of the asset over our estimate of its fair value. Any impairment charges would be classified as other expense.

### **Hedge Accounting for Derivatives**

We use forward exchange contracts and option contracts to hedge certain anticipated foreign currency exchange transactions, as well as any resulting receivable or payable balance. When specific criteria required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," have been met, changes in fair values of hedge contracts relating to anticipated transactions are recorded in other comprehensive income rather than current earnings until the underlying hedged transaction affects current earnings. In most cases, this results in gains and losses on hedge derivatives being released from other comprehensive income into current earnings some time after the maturity of the derivative. One of the criteria for this accounting treatment is that the forward exchange contract amount should not be in excess of specifically identified anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When anticipated transaction estimates or actual transaction amounts decrease below hedged levels, or when the timing of transactions changes significantly, we are required to reclassify at least a portion of the cumulative changes in fair values of the related hedge contracts from other comprehensive income to other income/expense during the quarter in which such changes occur. Once an anticipated transaction estimate or actual transaction amount decreases below hedged levels, we make adjustments to the related hedge contract in order to reduce the amount of the hedge contract to that of the revised anticipated transaction.

### **Taxes**

We record valuation allowances against our deferred tax assets, when necessary, in accordance with SFAS No. 109, "Accounting for Income Taxes." Realization of deferred tax assets (such as net operating loss carryforwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our deferred tax asset, increasing our income tax expense in the year such determination is made.

In addition, we have not recorded U.S. income tax expense for foreign earnings that we have declared as indefinitely reinvested offshore, thus reducing our overall income tax expense. The amount of earnings designated as indefinitely reinvested offshore is based upon the actual deployment of such earnings in our offshore assets and our expectations of the future cash needs of our U.S. and foreign entities. Income tax considerations are also a factor in determining the amount of foreign earnings to be repatriated.

We take a conservative approach in determining the amount of foreign earnings to declare as reinvested offshore. As required by U.S. generally accepted accounting principles, the presumption is that such earnings will be repatriated in the future. In order to overcome this presumption, we carefully review all factors which drive the ultimate disposition of such foreign earnings, and apply stringent standards to overcoming the presumption of repatriation. Despite this conservative approach, because the determination involves our future plans and expectations of future events, the possibility exists that amounts declared as indefinitely reinvested offshore may ultimately be repatriated in the event the actual cash needs of our U.S. entities exceed our current expectations or the actual cash needs of our foreign entities are less than expected. This would result in additional income tax expense in the year of such determination. Conversely, this conservative approach may result in accumulated foreign earnings (for which U.S. income taxes have been provided) being determined in the future to be indefinitely reinvested offshore. In this case, our income tax expense would be reduced in the year of such determination.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision in accordance with the anticipated annual rate. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate.

### **Other Contingencies**

In the ordinary course of business, we are involved in legal proceedings involving contractual and employment relationships, product liability claims, trademark rights, and a variety of other matters. We record contingent liabilities resulting from claims against us when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. We disclose contingent liabilities when there is a reasonable possibility that the ultimate loss will exceed the recorded liability. Estimating probable losses requires analysis of multiple factors, in some cases including judgments about the potential actions of third party claimants and courts. Therefore, actual losses in any future period are inherently uncertain. Currently, we do not believe that any of our pending legal proceedings or claims will have a material impact on our financial position or results of operations. However, if actual or estimated probable future losses exceed our recorded liability for such claims, we would record additional charges as other expense during the period in which the actual loss or change in estimate occurred.

## Operating Results

Income before cumulative effect of accounting change for the first quarter of fiscal 2003 increased 6.4% versus the first quarter of fiscal 2002. A 7.0% increase in revenues, a 200 basis point increase in our gross margin percentage, and slightly lower interest expense drove the increase in net income. These improvements were partially offset by increased selling and administrative expense as a percentage of revenues and slightly higher net other expense. Our effective tax rate was flat as compared to the first quarter of fiscal 2002. Diluted earnings per share before accounting change improved 8.0%, from \$0.75 to \$0.81, a slightly higher rate than net income, due to share repurchases over the past year. As discussed further below, in the first quarter of fiscal 2003, we recorded a \$266.1 million charge for the cumulative effect of implementing Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." In the first quarter of fiscal 2002, we recorded a \$5.0 million charge for the cumulative effect of implementing Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities".

Growth in our international regions drove the 7.0% increase in consolidated revenues. (Had foreign exchange rates remained constant with the prior year, the increase in consolidated revenues for the quarter would have been 4.5%.) Together, the international regions grew reported revenues 13.6% (8.1% in constant dollars) and represented 47.2% of total company revenues.

In the Europe, Middle East, and Africa (EMEA) region, revenues increased 15.5% in reported dollars and 4.7% in constant dollars. The higher amount in reported dollars reflected a significant strengthening of the euro versus the U.S. dollar as compared to last year. The constant dollar growth was achieved in all three business units, footwear, apparel, and equipment. Our emerging businesses in Central and Eastern Europe drove the constant dollar increase in the first quarter of fiscal 2003, reflecting our investments in these emerging markets in recent years.

In Asia Pacific, reported revenues increased 23.8%, representing 22.4% growth in constant dollars and continuing a recent trend of strong growth across this region. As in recent quarters, each of our three business units experienced growth on stronger demand across most countries in Asia Pacific.

Reported revenues for the Americas region decreased 11.1% and increased 2.3% in constant dollars.

The U.S. region also contributed to the consolidated revenue growth, increasing revenues 1.5%. Growth in the apparel business fueled the revenue increase, while footwear and equipment revenues were essentially flat as compared to last year. Stronger wholesale revenues were attained in each of the U.S. business units, while each was negatively affected by weaker results from NIKE-owned retail stores as compared to the prior-year period. Retail revenues have remained at relatively low levels since the terrorist attacks on September 11th last year. In footwear, wholesale sales of in-line footwear increased significantly, but these gains were offset by a significant decrease in close-out sales. The growth of in-line footwear sales reflected an increase in pairs sold, partially offset by a lower average price per pair. The decrease in close-out sales reflected our successful effort to tighten inventories over the past year and relatively high levels of close-out sales in the first quarter of fiscal 2002 due to supply chain systems disruptions that occurred in the third quarter of fiscal 2001.

The breakdown of revenues follows. "Other" as shown below includes revenues from Bauer NIKE Hockey, Inc., Cole Haan Holdings, Inc, Hurley International LLC, and NIKE Golf. Revenues from these operating units grew 2.8% as compared to the first quarter of fiscal 2002. Beginning this quarter, the revenues from NIKE Golf operations in our largest golf markets have been excluded from the revenues of the regions and reported in the Other category, reflecting that we have begun managing these operations as a separate business. This NIKE Golf information for the prior year period has been reclassified to conform to the current year presentation. The inclusion of NIKE Golf in Other revenue this quarter did not have a significant impact on the reported growth.

	Three Months Ended August 31,		
	2002	2001	% change
	(in millions)		
U.S.A. REGION			
FOOTWEAR	\$865.1	\$862.9	—%
APPAREL	328.7	310.6	6%
EQUIPMENT AND OTHER	88.9	89.8	—1%
TOTAL U.S.A.	1,282.7	1,263.3	2%

EMEA REGION				
FOOTWEAR	492.7	425.5	16%	
APPAREL	310.7	272.7	14%	
EQUIPMENT AND OTHER	65.9	54.7	20%	
TOTAL EMEA	869.3	752.9	15%	
ASIA PACIFIC REGION				
FOOTWEAR	180.7	162.2	11%	
APPAREL	99.0	64.3	54%	
EQUIPMENT AND OTHER	28.7	22.6	27%	
TOTAL ASIA PACIFIC	308.4	249.1	24%	
AMERICAS REGION				
FOOTWEAR	93.0	98.2	-5%	
APPAREL	38.6	49.7	-22%	
EQUIPMENT AND OTHER	10.7	12.2	-12%	
TOTAL AMERICAS	142.3	160.1	-11%	
	2,602.7	2,425.4	7%	
OTHER	193.6	188.3	3%	
TOTAL REVENUES	\$2,796.3	\$2,613.7	7%	
	=====	=====		

As previously disclosed, we expect U.S. sales to Foot Locker, Inc. ("Foot Locker") for the second and third quarters of fiscal 2003 will be significantly below prior year levels. This is a result of both lower orders from Foot Locker and limitations we have imposed on this customer's purchase of certain products. Although we do not yet have visibility to orders beyond February 2003, we believe this trend will likely continue until we begin to compare our results to lower prior year Foot Locker orders beginning in the second quarter of fiscal 2004. We are continuing to work with Foot Locker to develop a plan for our business together that enables both companies to achieve their strategic objectives. At the same time, we are also pursuing incremental sales with other retailers to offset the decline in revenues from Foot Locker. Although we do not expect to fully offset the revenue loss from Foot Locker in the short term, we believe we will ultimately succeed in realigning distribution of our products in the U.S. to meet consumer demand and generate profitable revenue growth.

Worldwide futures and advance orders for our footwear and apparel scheduled for delivery from September 2002 to January 2003 were 2.5% higher than such orders booked in the comparable period of fiscal 2002. The percentage growth in these orders is not necessarily indicative of our expectation of revenue growth in subsequent periods. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations can cause differences in the comparisons between future orders and actual revenues. Moreover, a significant portion of our revenues is not derived from futures orders, including wholesale sales of equipment, U.S. licensed team apparel, Bauer NIKE Hockey, Cole Haan, NIKE Golf, Hurley International LLC, and retail sales across all brands.

We are currently experiencing some delays in delivering retailer orders for footwear and apparel product in the U.S. These delivery issues are the result of the recent closure of West Coast ports and apparel sourcing issues due to production scheduling and factory deliveries. Before and during the port closure, we developed and executed contingency plans to minimize the impact of such an occurrence on our business. However, since the majority of the product we sell in the U.S. moves through these ports, and shippers could not divert product already in transit, we expect that the port closure and subsequent transportation backlog will create additional delivery delays and increase our airfreight costs. These delivery delays may affect the timing of revenues, or if more prolonged, may result in order cancellations. However, at this time we are unable to fully assess the impact of these factors on our future financial results. Since the labor issues leading to the port closures have not yet been resolved, it is unclear when the current backlog will be eliminated and the ports will return to normal operation.

In the first quarter of fiscal 2003, our quarterly gross margin percentage improved 200 basis points as compared to the prior year period, from 39.4% to 41.4%, our largest quarterly gross margin percentage in recent history. Each of our regional businesses achieved a higher margin percentage this quarter than this same quarter last year. On a global basis, significantly higher margins were achieved in both footwear and apparel. Improvements in footwear and apparel were the result of long-term initiatives to lower sourcing and distribution costs. In addition, the higher gross margin percentage resulted in part from a higher mix of sales of classic footwear models which are generally more profitable than our more complex performance models.

Selling and administrative expense increased as a percentage of revenues from 26.6% to 28.6% in the first quarter of fiscal 2003 versus the first quarter of fiscal 2002. Demand creation expense was \$322.2 million in the first quarter of fiscal 2003 as compared to \$257.1 million in fiscal 2002. The primary driver of this increase was spending in fiscal 2003 for our World Cup 2002 marketing campaign, which occurred primarily in our international regions. This increase also reflected the relatively low amount of spending in the first quarter of last year as we limited demand creation spending in order to focus spending on the World Cup campaign, which began late in fiscal 2002. Operating overhead increased 8.6% between the first quarter of fiscal 2003 and the first quarter of fiscal 2002 due to several factors. These included: overhead costs

associated with new NIKE-owned retail stores in EMEA and Asia, the conversion of independent distributorships to NIKE-owned businesses in certain European countries, investments in our NIKE Golf business infrastructure, and overhead costs associated with our recently acquired Hurley business.

First quarter interest expense decreased from \$13.0 million in fiscal 2002 to \$10.5 million in fiscal 2003, a decline of 19.2%. The decrease reflected both lower interest rates and lower average debt levels, as we have continued to use operating free cash flow to reduce debt.

Other expense, net, for the first quarter of fiscal 2003 was \$13.5 million compared to \$5.5 million for the same quarter of last year. Significant amounts included in other expense, net, were interest income, profit sharing expense, and certain foreign currency gains and losses.

Our effective tax rate in the first quarter of fiscal 2003 was 35.0%, which was consistent with the first quarter of fiscal 2002 but higher than our full year rate for fiscal 2002 of 34.3%. This increase compared to fiscal 2002 reflects our expectation of higher taxes on foreign earnings due to increasing taxable income at foreign subsidiaries.

As described above, during the first quarter of fiscal 2003 we adopted FAS 142. Upon adoption of FAS 142, we recorded a \$266.1 million charge related to the impairment of goodwill and trademarks associated with Bauer NIKE Hockey and the goodwill of Cole Haan, reflecting that the fair values we estimated for these assets were less than the carrying values. In addition, the adoption of this accounting standard resulted in a reduction to goodwill and intangible asset amortization of \$3.3 million in the first quarter of fiscal 2003 as compared to fiscal 2002. See the accompanying Notes to Condensed Consolidated Financial Statements for further information.

### **Recently Issued Accounting Standards**

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (FAS 121), and amends Accounting Principles Board Statement No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30). FAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. FAS 144 retains the fundamental provisions of FAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. This statement also retains APB 30's requirement that companies report discontinued operations separately from continuing operations. All provisions of FAS 144 were effective for us on June 1, 2002. The adoption of FAS 144 did not have an impact on our consolidated financial position or results of operations and we do not expect any impact in the foreseeable future.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). This statement supercedes Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability is recognized at the date an entity commits to an exit plan. FAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of FAS 146 will be effective for any exit and disposal activities initiated after December 31, 2002.

### **Liquidity and Capital Resources**

Cash provided by operations was \$174.1 million in the first quarter of fiscal 2003, which compared to \$235.4 million in the first quarter of fiscal 2002. Our primary source of operating cash flow in the current quarter was income before accounting change of \$217.2 million. Cash provided by operations was less than that of last year due to a greater increase of working capital during the current quarter.

Total cash used by investing activities during the current quarter was \$50.1 million, compared to \$51.8 million in the prior year period. These amounts primarily reflected capital expenditures. The most significant capital expenditures in both periods were related to computer equipment and software, driven by our supply chain initiative, and continued investment in NIKE-owned retail stores, primarily outside the U.S.

Net cash used by financing activities for the first quarter was \$249.2 million, up from \$90.1 million in the same quarter in fiscal 2002. Consistent between years, these amounts included uses of cash to reduce short-term debt and to repay current maturities of long-term debt, dividends to shareholders, and share repurchases. These uses of cash were partially offset by proceeds from long-term debt issuances and the exercise of employee stock options.

The share repurchases were part of a \$1 billion share repurchase program that began in fiscal 2001. In the current quarter, we purchased approximately 947,000 shares of NIKE's Class B common stock for \$44.5 million. We expect to fund this program from operating free cash flow. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

In October 2001, we filed a shelf registration statement with the Securities and Exchange Commission (SEC) for \$1.0 billion. In May 2002, we commenced a medium-term note program under the shelf registration that allows us to issue up to \$500.0 million in medium-term notes, as our capital needs dictate. As described in our most recent Form 10-K, during the first quarter of fiscal 2003, we issued a total of \$90.0 million in notes under this program. The notes have coupon rates that range from 4.80% to 5.66%. The maturities range from July 9, 2007 to August 7, 2012. For \$75.0 million of the notes, we simultaneously entered into interest rate swap agreements whereby we receive fixed interest payments

at the same rate as the notes and pay variable interest payments based on the six-month London Inter Bank Offering Rate (LIBOR) plus a spread. Each swap has the same notional amount and maturity date as its respective note. After issuance of these notes, \$910.0 million remains available to be issued under our shelf registration. We may issue additional notes under the shelf registration in the near future depending on working capital and general corporate needs.

No amounts are currently outstanding under our two bank facilities under which we have total availability of \$1.1 billion. The terms of these facilities have not changed from those described in our Form 10-K as of May 31, 2002. We are in full compliance with each of these covenants and believe it is unlikely we will fail to meet any of these covenants in the future.

Liquidity is also provided by our commercial paper program, under which there was \$132.9 million and \$338.3 million outstanding at August 31, 2002 and May 31, 2002, respectively.

Our long-term unsecured debt ratings remain at A and A2 from Standard and Poor's Corporation ("S&P") and Moody's Investor Services ("Moody's"), respectively. Our short-term debt ratings remain at A1 and P1 from S&P and Moody's, respectively.

We currently believe that cash generated by operations, together with access to external sources of funds as described above, will be sufficient to meet our operating and capital needs.

Dividends per share of common stock for the first quarter of fiscal 2003 remained at \$.12 per share, the same level as the previous year.

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

There have been no material changes from the information previously reported under Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2002.

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

a) Within the 90-day period prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's Exchange Act filings.

b) There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

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

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

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

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

## Part II - Other Information

### Item 1. Legal Proceedings:

There have been no material changes from the information previously reported under Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2002.

### Item 4.

#### Submission of Matters to a Vote of Security Holders

The Company's annual meeting of shareholders was held on September 18, 2002. The shareholders elected for the ensuing year all of management's nominees for the Board of Directors, approved the extension of and amendments to the NIKE, Inc. Long-Term Incentive Plan, and ratified the appointment of PricewaterhouseCoopers LLP as independent accountants for fiscal 2003.

The voting results are as follows:

#### Election of Directors

	For	Votes Cast Withheld	Broker Non-Votes
Directors			
Elected by holders of Class A Common Stock:			
Ralph D. DeNunzio	97,805,701	-0-	-0-
Richard K. Donahue	97,805,701	-0-	-0-
Douglas G. Houser	97,805,701	-0-	-0-
Jeanne P. Jackson	97,805,701	-0-	-0-
John E. Jaqua	97,805,701	-0-	-0-
Philip H. Knight	97,805,701	-0-	-0-
Charles W. Robinson	97,805,701	-0-	-0-
A. Michael Spence	97,805,701	-0-	-0-
John R. Thompson, Jr.	97,805,701	-0-	-0-
Elected by holders of Class B Common Stock:			
Thomas E. Clarke	109,595,139	26,765,154	-0-
Jill K. Conway	133,891,441	2,468,852	-0-
Delbert J. Hayes	126,724,695	9,635,598	-0-

	For	Against	Abstain	Broker Non-Votes
Proposal 2 -				

Approval of the extension  
of and amendments to the  
NIKE, Inc. Long-Term  
Incentive Plan:

Class A and Class B  
Common Stock Voting

Together 229,938,163 3,107,854 1,119,972 -0-

Proposal 3 -  
Ratify the appointment  
of PricewaterhouseCoopers LLP  
as independent accountants:

Class A and Class B  
Common Stock Voting  
Together 222,928,043 10,242,985 994,962 -0-

## **Item 6. Exhibits and Reports on Form 8-K:**

### **(a) EXHIBITS:**

3.1 Restated Articles of Incorporation, as amended (incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1995).

3.2 Third Restated Bylaws, as amended (incorporated by reference from Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1995).

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

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

4.3 Indenture between the Company and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.01 to Amendment No. 1 to Registration Statement No. 333-15953 filed by the Company on November 26, 1996).

4.4 Form of Officers' Certificate relating to the Company's 6.375% Notes and form of 6.375% Note (incorporated by reference to Exhibits 4.1 and 4.2 of the Company's Form 8-K dated December 10, 1996).

4.5 Form of Officers' Certificate relating to the Company's 5.5% Notes and form of 5.5% Note (incorporated by reference to Exhibits 4.2 and 4.3 of the Company's Form 8-K dated August 17, 2001).

4.6 Form of Officers' Certificate relating to the Company's Fixed Rate Medium-Term Notes and Company's Floating Rate Medium-Term Notes, form of Fixed Rate Note and form of Floating Rate Note (incorporated by Reference to Exhibits 4.2, 4.3 and 4.4 of the Company's Form 8-K dated May 29, 2002).

10.1 Credit Agreement dated as of November 17, 2000 among NIKE, Inc., Bank of America, N.A., individually and as Agent, and the other banks party thereto (incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2000).

10.2 First Amendment to Credit Agreement dated as of November 16, 2001 (incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2001).

10.3 Form of non-employee director Stock Option Agreement (incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2000).\*

10.4 Form of Indemnity Agreement entered into between the Company and each of its officers and directors (incorporated by reference from the Company's definitive proxy statement filed in connection with its annual meeting of shareholders held on September 21, 1987).

10.5 NIKE, Inc. 1990 Stock Incentive Plan.\*

10.6 NIKE, Inc. Executive Performance Sharing Plan (incorporated by reference from the Company's definitive proxy statement filed in connection with its annual meeting of shareholders held on September 18, 2000).\*

10.7 NIKE, Inc. Long-Term Incentive Plan (incorporated by reference from the Company's definitive proxy statement filed in connection with its annual meeting of shareholders held on September 22, 1997).\*

- 10.8 Collateral Assignment Split-Dollar Agreement between NIKE, Inc. and Philip H. Knight dated March 10, 1994 (incorporated by reference from Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1994).\*
- 10.9 Covenant Not To Compete And Non-Disclosure Agreement between NIKE, Inc. and Thomas E. Clarke dated August 31, 1994 (incorporated by Reference from Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2001).\*
- 10.10 Covenant Not To Compete And Non-Disclosure Agreement between NIKE, Inc. and Mark G. Parker dated October 6, 1994 (incorporated by Reference from Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2001).\*
- 10.11 NIKE, Inc. Deferred Compensation Plan dated January 1, 2000 (incorporated by reference from Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2001).\*
- 10.12 Employment Agreement, and Covenant Not To Compete And Non-Disclosure Agreement between NIKE, Inc. and Mindy F. Grossman dated September 6, 2000 (incorporated by reference from Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2002).\*
- 12.1 Computation of Ratio of Earnings to Charges.

\* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K:

The following reports on Form 8-K were filed during the fiscal quarter ending August 31, 2002:

August 14, 2002: Item 9. Regulation FD Disclosure. Certification of the Annual Report on Form 10-K by the Chief Executive Officer and Chief Financial Officer.

## SIGNATURES

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

NIKE, Inc. An Oregon Corporation

*BY: /s/ Donald W. Blair*

\_\_\_\_\_  
*Donald W. Blair*  
*Chief Financial Officer*

*DATED: October 15, 2002*

## CERTIFICATIONS

I, Philip H. Knight, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NIKE, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 15, 2002

*/s/ Philip H. Knight*

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*Philip H. Knight*  
*Chief Executive Officer*

I, Donald W. Blair, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NIKE, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

d) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal

controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 15, 2002

*/s/ Donald W. Blair*

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*Donald W. Blair*  
*Chief Financial Officer*

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

	Three Months Ended August 31,	
	2002	2001
	(in millions)	
Net (loss) income	\$(48.9)	\$199.2
Income taxes	116.9	110.0
Cumulative effect of accounting change	266.1	5.0
	-----	-----
Income before income taxes and accounting change	334.1	314.2
	-----	-----
Add fixed charges		
Interest expense (A)	10.9	13.8
Interest component of leases (B)	15.1	12.7
	-----	-----
Total fixed charges	26.0	26.5
	-----	-----
Earnings before income taxes and fixed charges (C)	\$359.7	\$339.9
	=====	=====
Ratio of earnings to total fixed charges	13.8	12.8
	=====	=====

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

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

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**End of Filing**

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