

# NIKE INC

## FORM 10-Q (Quarterly Report)

Filed 12/22/04 for the Period Ending 12/22/04

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 12/22/2004 For Period Ending 12/22/2004

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 November 30, 2004  
*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 is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes  No

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  No

Common Stock shares outstanding as of November 30, 2004 were:

Class A	77,581,484
Class B	186,481,859
	<hr/>
	264,063,343
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#### PART 1 - FINANCIAL INFORMATION

##### Item 1. FINANCIAL STATEMENTS

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	November 30, 2004	May 31, 2004
	(in millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$1,181.8	\$ 828.0
Short-term investments	476.2	400.8
Accounts receivable, net	2,125.8	2,120.2
Inventories (Note 2)	1,692.4	1,633.6
Deferred income taxes	184.2	165.0
Prepaid expenses and other current assets	390.3	364.4
	<hr/>	<hr/>
Total current assets	6,050.7	5,512.0
Property, plant and equipment	3,294.5	3,132.3
Less accumulated depreciation	1,671.0	1,545.4
	<hr/>	<hr/>
Property, plant and equipment, net	1,623.5	1,586.9
Identifiable intangible assets, net (Note 3)	407.8	366.3
Goodwill (Note 3)	135.4	135.4
Deferred income taxes and other assets	340.9	291.0
	<hr/>	<hr/>
Total assets	\$8,558.3	\$7,891.6
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 6.5	\$ 6.6
Notes payable	144.4	146.0
Accounts payable	650.7	763.8
Accrued liabilities (Note 4)	1,020.8	974.4
Income taxes payable	180.8	118.2
	<hr/>	<hr/>
Total current liabilities	2,003.2	2,009.0
Long-term debt	699.0	682.4
Deferred income taxes and other liabilities	513.5	418.2
Commitments and contingencies (Note 9)	--	--
Redeemable preferred stock	0.3	0.3
Shareholders' equity:		
Common stock at stated value:		
Class A convertible-77.6 and 77.6 shares outstanding	0.1	0.1
Class B-186.5 and 185.5 shares outstanding	2.7	2.7
Capital in excess of stated value	1,094.5	887.8
Unearned stock compensation	(4.4)	(5.5)
Accumulated other comprehensive loss (Note 5)	(2.6)	(86.3)
Retained earnings	4,252.0	3,982.9
	<hr/>	<hr/>
Total shareholders' equity	5,342.3	4,781.7
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$8,558.3	\$7,891.6
	=====	=====

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended November 30,		Six Months Ended November 30,	
	2004	2003	2004	2003
(in millions, except per share data)				
Revenues	\$3,148.3	\$2,837.1	\$6,710.1	\$5,862.0
Cost of sales	1,760.2	1,637.5	3,736.2	3,360.9
Gross margin	1,388.1	1,199.6	2,973.9	2,501.1
Selling and administrative	973.2	902.5	2,046.8	1,772.1
Interest expense, net	3.7	8.1	8.5	15.6
Other expense, net	8.2	14.3	10.1	38.1
Income before income taxes	403.0	274.7	908.5	675.3
Income taxes	141.1	95.6	319.8	235.0
Net income	\$ 261.9	\$ 179.1	\$ 588.7	\$ 440.3
Basic earnings per common share (Note 7)	\$ 0.99	\$ 0.68	\$ 2.24	\$ 1.67
Diluted earnings per common share (Note 7)	\$ 0.97	\$ 0.66	\$ 2.18	\$ 1.64
Dividends declared per common share	\$ 0.25	\$ 0.20	\$ 0.45	\$ 0.34

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

**NIKE, Inc.**

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended November 30,	
	2004	2003
(in millions)		
Cash provided (used) by operations:		
Net income	\$ 588.7	\$ 440.3
Income charges not affecting cash:		
Depreciation	117.8	123.2
Deferred income taxes	22.2	16.3
Amortization and other	19.6	35.2
Income tax benefit from exercise of stock options	36.7	19.4
Changes in certain working capital components, net of the effect of acquisition of subsidiary:		
Decrease in accounts receivable	90.0	187.3
Decrease (increase) in inventories	38.7	(21.9)
Decrease (increase) in prepaid expenses and other current assets	31.9	(35.6)
(Decrease) increase in accounts payable, accrued liabilities and income taxes payable	(190.1)	8.8
Cash provided by operations	755.5	773.0
Cash provided (used) by investing activities:		
Purchases of short-term investments	(701.2)	--
Maturities of short-term investments	625.0	--
Additions to property, plant and equipment	(124.8)	(88.0)

Disposals of property, plant and equipment	6.3	3.2
Increase in other assets	(12.1)	(9.7)
Decrease in other liabilities	(2.9)	(0.3)
Acquisition of subsidiary, net of cash acquired	(47.2)	(288.9)
	<hr/>	<hr/>
Cash used by investing activities	(256.9)	(383.7)
	<hr/>	<hr/>
Cash provided (used) by financing activities:		
Proceeds from long-term debt issuance	--	101.8
Reductions in long-term debt including current portion	(5.9)	(3.0)
Decrease in notes payable	(17.3)	(5.0)
Proceeds from exercise of options and other stock issuances	174.0	115.3
Repurchase of stock	(203.7)	(195.5)
Dividends on common stock	(105.2)	(73.7)
	<hr/>	<hr/>
Cash used by financing activities	(158.1)	(60.1)
	<hr/>	<hr/>
Effect of exchange rate changes on cash	13.3	5.7
	<hr/>	<hr/>
Net increase in cash and equivalents	353.8	334.9
Cash and equivalents, May 31, 2004 and 2003	828.0	634.0
	<hr/>	<hr/>
Cash and equivalents, November 30, 2004 and 2003	\$1,181.8	\$ 968.9
	=====	=====

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

## NIKE, Inc.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

##### Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair 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 six (6) months ended November 30, 2004 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 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

##### Recently Issued Accounting Pronouncements:

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" (FAS 151). FAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of FAS 151 are effective for the fiscal year beginning June 1, 2006. The Company is currently evaluating the provisions of FAS 151 and does not expect that the adoption will have a material impact on the Company's consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment". See Note 6 for further discussion.

#### NOTE 2 - Inventories:

Inventories by major classification are as follows:

Nov. 30,	May 31,
2004	2004

	(in millions)	
Finished goods	\$1,687.1	\$1,609.7
Work-in-progress	2.8	10.6
Raw materials	2.5	13.3
	\$1,692.4	\$1,633.6
	=====	=====

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

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of November 30, 2004 and May 31, 2004:

	November 30, 2004			May 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Amortized intangible assets:						
Patents	\$ 29.6	\$ (12.6)	\$ 17.0	\$ 27.9	\$ (11.9)	\$ 16.0
Trademarks	54.2	(13.6)	40.6	14.1	(11.5)	2.6
Other	21.6	(12.9)	8.7	17.0	(10.8)	6.2
Total	\$ 105.4	\$ (39.1)	\$ 66.3	\$ 59.0	\$ (34.2)	\$ 24.8
	=====	=====	=====	=====	=====	=====
Unamortized intangible assets - Trademarks			\$ 341.5			\$ 341.5
Identifiable intangible assets, net			\$ 407.8			\$ 366.3
			=====			=====
Goodwill			\$ 135.4			\$ 135.4
			=====			=====

Amortization expense, which is included in selling and administrative expense, was \$2.8 million and \$5.5 million for the three-month periods ended November 30, 2004 and 2003, respectively, and \$4.4 million and \$6.4 million for the six-month periods ended November 30, 2004 and November 30, 2003. The estimated amortization expense for intangible assets subject to amortization for each of the succeeding years ended May 31, 2005 through May 31, 2009 are as follows: 2005: \$9.4 million; 2006: \$8.9 million; 2007: \$7.9 million; 2008: \$7.4 million; 2009: \$6.4 million.

On August 11, 2004, the Company acquired Official Starter LLC and Official Starter Properties LLC (collectively "Official Starter") for \$47.2 million, including acquisition costs, net of cash acquired. The Exeter Brands Group LLC, a wholly-owned subsidiary of the Company, was formed soon thereafter to develop the Company's business in retail channels serving value-conscious consumers and operate the Official Starter business. As a result of the acquisition, \$39.0 million was allocated to amortized trademarks and \$4.6 million was allocated to other amortized intangible assets. The weighted average amortization period is nine years in total and approximately 10 years and three years for amortized trademarks and other amortized intangible assets, respectively. The results of Starter's operations have been included in the consolidated financial statements since the date of acquisition as part of the Company's Other operating segment. The pro forma effect of the acquisition on the combined results of operations was not significant.

### NOTE 4 - Accrued Liabilities:

Accrued liabilities include the following:

	November 30, 2004	May 31, 2004
	(in millions)	
Fair value of derivatives	\$ 186.5	\$ 141.3
Compensation and benefits	254.3	339.0
Accrued taxes	78.8	87.5
Endorser compensation	97.7	86.9
Dividends payable	66.0	52.6
Other <sup>1</sup>	337.5	267.1
	=====	=====

\$1,020.8            \$ 974.4  
 =====            =====

1 Other consists of various accrued expenses and no individual item accounted for more than \$60 million of the balance at November 30, 2004 and May 31, 2004.

**NOTE 5 - Comprehensive Income:**

Comprehensive income, net of taxes, is as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
	(in millions)			
Net income	\$261.9	\$179.1	\$588.7	\$440.3
Other comprehensive income:				
Change in cumulative translation adjustment and other	130.7	75.7	116.6	16.5
Changes due to cash flow hedging instruments:				
Net loss on hedge derivatives	(115.5)	(104.2)	(108.6)	(17.7)
Reclassification to net income of previously deferred (gains) and losses related to hedge derivative instruments	25.3	34.8	75.7	81.3
	-----	-----	-----	-----
Other comprehensive income	40.5	6.3	83.7	80.1
	-----	-----	-----	-----
Total comprehensive income	\$302.4	\$185.4	\$672.4	\$520.4
	=====	=====	=====	=====

**NOTE 6 - Stock-Based Compensation:**

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

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
	(in millions, except per share data)			
Net income as reported	\$261.9	\$179.1	\$588.7	\$440.3
Add: Stock-based compensation expense included in reported net income, net of tax	0.3	--	0.3	--
Deduct: Total stock-based employee compensation expense under fair value based method for all awards, net of tax	(17.3)	(12.1)	(31.4)	(23.3)
	-----	-----	-----	-----
Pro forma net income	\$244.9	\$167.0	\$557.6	\$417.0
	=====	=====	=====	=====
Earnings per share:				
Basic - as reported	\$ 0.99	\$ 0.68	\$ 2.24	\$1.67
Basic - pro forma	0.93	0.63	2.12	1.58
Diluted - as reported	0.97	0.66	2.18	1.64
Diluted - pro forma	0.91	0.63	2.09	1.57

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

On December 16, 2004, the FASB finalized SFAS No. 123R "Share-Based Payment," which will be effective for interim or annual reporting periods beginning after June 15, 2005. The new standard will require us to expense stock options and the FASB believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee share options. The Company has begun a process to analyze how the utilization of a binomial lattice model could impact the valuation of our options. The effect of expensing stock options on our results of operations using the Black-Scholes model is presented in the table above.

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

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase 1.0 million shares of common stock were outstanding at November 30, 2003, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares and, therefore, the effect would be antidilutive. There were no such antidilutive options outstanding at November 30, 2004.

	Three Months Ended November 30,		Six Months Ended November 30,	
	2004	2003	2004	2003
	(in millions, except per share data)			
Determination of shares:				
Average common shares outstanding	263.3	263.3	263.0	263.1
Assumed conversion of dilutive stock options and awards	7.8	6.2	7.5	5.2
Diluted average common shares outstanding	271.1	269.5	270.5	268.3
Basic earnings per common share	\$ 0.99	\$ 0.68	\$ 2.24	\$ 1.67
Diluted earnings per common share	\$ 0.97	\$ 0.66	\$ 2.18	\$ 1.64

#### NOTE 8 - Operating Segments:

The Company's operating segments are evidence of the structure of the Company's internal organization. The major segments are defined by geographic regions 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 Incorporated, Bauer NIKE Hockey, Inc., Hurley International LLC, NIKE Golf, Converse Inc. (beginning September 4, 2003), and Exeter Brands Group LLC (beginning August 11, 2004), that are considered immaterial for individual disclosure based on the aggregation criteria in SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information".

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

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

Accounts receivable, inventories, and property, plant and equipment for operating segments are regularly reviewed and therefore provided below. Certain NIKE Golf receivables, inventories and property, plant and equipment are managed by the regions and as a result, are included in the region's balances.

	Three Months Ended November 30,	Six Months Ended November 30,
--	------------------------------------	----------------------------------

	2004	2003	2004	2003
Net Revenue				
U.S.	\$1,132.0	\$1,083.0	\$2,533.7	\$2,332.0
EUROPE, MIDDLE EAST, AFRICA	961.1	847.8	2,119.0	1,859.4
ASIA PACIFIC	483.5	412.0	889.5	760.0
AMERICAS	189.3	154.3	351.0	305.4
OTHER	382.4	340.0	816.9	605.2
	<u>\$3,148.3</u>	<u>\$2,837.1</u>	<u>\$6,710.1</u>	<u>\$5,862.0</u>
	=====	=====	=====	=====
Pre-tax Income				
U.S.	\$ 232.6	\$ 192.4	\$ 554.5	\$ 485.8
EUROPE, MIDDLE EAST, AFRICA	197.6	138.2	444.0	341.0
ASIA PACIFIC	112.0	98.1	175.4	174.5
AMERICAS	44.5	31.2	65.2	55.5
OTHER	20.8	6.7	61.1	2.4
CORPORATE	(204.5)	(191.9)	(391.7)	(383.9)
	<u>\$ 403.0</u>	<u>\$ 274.7</u>	<u>\$ 908.5</u>	<u>\$ 675.3</u>
	=====	=====	=====	=====
	Nov. 30,	May 31,		
	2004	2004		
	<u>-----</u>	<u>-----</u>		
Accounts Receivable, net				
U.S.	\$ 608.3	\$ 616.6		
EUROPE, MIDDLE EAST, AFRICA	718.1	724.1		
ASIA PACIFIC	307.3	272.9		
AMERICAS	181.7	132.1		
OTHER	277.6	327.8		
CORPORATE	32.8	46.7		
	<u>\$2,125.8</u>	<u>\$2,120.2</u>		
	=====	=====		
Inventories, net				
U.S.	\$ 559.8	\$ 570.6		
EUROPE, MIDDLE EAST, AFRICA	488.2	477.9		
ASIA PACIFIC	221.1	163.9		
AMERICAS	75.8	78.3		
OTHER	310.0	305.5		
CORPORATE	37.5	37.4		
	<u>\$1,692.4</u>	<u>\$1,633.6</u>		
	=====	=====		
Property, Plant and Equipment, net				
U.S.	\$ 193.0	\$ 193.0		
EUROPE, MIDDLE EAST, AFRICA	245.7	232.0		
ASIA PACIFIC	407.9	379.7		
AMERICAS	14.8	12.7		
OTHER	90.7	86.9		
CORPORATE	671.4	682.6		
	<u>\$1,623.5</u>	<u>\$1,586.9</u>		
	=====	=====		

#### NOTE 9 - Commitments and Contingencies:

At November 30, 2004, the Company had letters of credit outstanding totaling \$542.5 million. These letters of credit were issued primarily for the purchase of inventory.

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

#### NOTE 10 - Income Taxes:

The American Jobs Creation Act (the "Act") was signed into law by the President on October 22, 2004. The Act creates a temporary incentive for U.S. multinational corporations to repatriate accumulated income earned outside the U.S. by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations. According to the Act, the amount of eligible repatriation is limited to \$500 million or the amount described as permanently reinvested earnings outside the U.S. in the most recent audited financial statements filed with the Securities and Exchange Commission on or before June 30, 2003. Whether the Company will ultimately take advantage of the provision

depends on a number of factors including potential forthcoming Congressional actions, Treasury regulations and development of a qualified reinvestment plan. At this time, the Company has not made any changes to our position on reinvestment of certain foreign earnings.

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

### Overview

In the second quarter of fiscal 2005, our revenues grew 11% to \$3.1 billion, net income grew 46% to \$261.9 million and we delivered diluted earnings per share of \$0.97, a 47% increase versus the second quarter of fiscal 2004. For the quarter, our consolidated gross margin percentage increased 180 basis points to 44.1% as gross margins increased in every region and for our Other businesses as a whole. The international regions accounted for just over half of the gross margin improvement, driven primarily by foreign currency transaction benefits, partially offset by the impact of higher inventories in Europe and Asia. Relatively low demand creation (advertising and promotion) spending and favorable foreign currency translation also added to our overall profitability in the second quarter. During the quarter, we also increased our return on invested capital and increased the level of dividends as compared to the second quarter of fiscal 2004. Our year-to-date results continue to reflect the positive impact of the Converse acquisition, although acquisitions did not have a material impact on second quarter results.

### Results of Operations

	Three Months Ended November 30,			Six Months Ended November 30,		
	2004	2003	change	2004	2003	change
	(in millions, except per share data)					
Revenues	\$3,148.3	\$2,837.1	11%	\$6,710.1	\$5,862.0	14%
Cost of sales	1,760.2	1,637.5	7%	3,736.2	3,360.9	11%
Gross margin	1,388.1 44.1%	1,199.6 42.3%	16%	2,973.9 44.3%	2,501.1 42.7%	19%
Selling and administrative	973.2 30.9%	902.5 31.8%	8%	2,046.8 30.5%	1,772.1 30.2%	16%
Net income	261.9	179.1	46%	588.7	440.3	34%
Diluted earnings per share	0.97	0.66	47%	2.18	1.64	33%

### Consolidated Operating Results

Three percentage points of our consolidated second quarter revenue growth and two percentage points of the six-month growth were attributable to changes in currency exchange rates, primarily the stronger euro. Excluding the impact of changes in foreign currency, revenue growth in our international regions contributed 5 percentage points of the consolidated revenue growth for the second quarter and first six months of fiscal 2005, as all three of our international regions posted higher revenues. The U.S. Region contributed 2 and 3 percentage points of the consolidated revenue growth for the second quarter and first six months of fiscal 2005, respectively. Sales in our Other businesses drove the balance of the improvement for the quarter and year-to-date periods. Converse, a component of the Other businesses, was acquired at the beginning of the second quarter of fiscal 2004 and contributed 2 percentage points to the overall revenue growth for the year-to-date period.

In the second quarter of fiscal 2005, our consolidated gross margin percentage improved 180 basis points versus the prior year quarter, from 42.3% to 44.1%. For the first six months of fiscal 2005, our consolidated gross margin percentage improved 160 basis points versus the prior year period, from 42.7% to 44.3%. The primary factors contributing to the improved gross margin percentages for the second quarter and year-to-date periods were as follows:

(1) Higher gross margins in our international regions accounted for 100 basis points of the overall margin improvement in the second quarter and 90 basis points year-to-date. This improvement was driven by changes in currency hedge rates, primarily the euro, partially offset by the impact of higher inventories in Europe and Asia (as discussed below). On a consolidated basis, the gross impact of currency changes was approximately 160 basis points and 140 basis points of the year-over-year improvement for the second quarter and year-to-date periods, respectively. As a majority of product purchases for the remainder of fiscal 2005 and the first half of fiscal 2006 have been hedged, we expect a positive impact on our gross margin percentage throughout fiscal 2005 and into the first half of fiscal 2006 due to improved year-over-year hedge rates, primarily for the euro.

(2) Higher apparel inventories in Europe and footwear inventories in Asia resulted in increased closeout sales, lower closeout pricing margins and increased obsolescence reserves. These factors resulted in a reduction in the gross margin percentage for the quarter and year-to-date periods of about 40 and 30 basis points, respectively.

(3) Higher gross margins in the US accounted for about 40 basis points and 30 basis points of the consolidated gross margin improvement for the second quarter and first six months, respectively. While gross margins for all three product business units improved for the quarter and six-month periods, the majority of the improvement was driven by higher footwear in-line pricing margins (net revenue for current product offerings minus product costs), lower third-party royalties driven by the expiration of the NBA license agreement and a lower level of closeout sales as a percentage of total sales.

(4) Improved gross margin percentages in our Other businesses represented 20 basis points of improvement for the quarter and 30 basis points improvement year-to-date. The addition of Exeter Brands and Converse drove the majority of the gross margin improvement. Both Exeter Brands and the international portion of Converse's business operate on a licensing model, which carries higher gross margins and lower operating expenses than the balance of our Other businesses.

Second quarter selling and administrative expense, comprised of demand creation and operating overhead, grew 8% versus the prior year quarter. Year-to-date fiscal 2005 selling and administrative expense increased 16% over the prior year period.

Demand creation expense grew 3% to \$350.6 million in the second quarter of fiscal 2005 while year-to-date demand creation expense increased 23% to \$817.2 million. Three percentage points of the increase in demand creation for the second quarter and year-to-date periods were due to changes in currency exchange rates. Excluding the impact of currency, there was no change in demand creation expense in the second quarter of fiscal 2005 compared to the prior year period as investment in demand creation for fiscal 2005 was focused in the first quarter around the summer's global sporting events. Excluding the impact of currency, the increase in demand creation spending for the first six months of fiscal 2005 was attributable to increased spending primarily in the U.S., Europe, Middle East and Africa (EMEA) and Asia Pacific regions for advertising around the summer's global sporting events (8 percentage point impact), higher sports marketing spending primarily on endorsement contracts (6 percentage point impact), and incremental investment in retail development programs (4 percentage point impact).

Operating overhead for the second quarter and first six months of fiscal 2005 grew 11% year-over-year, to \$622.6 million and \$1,229.6 million respectively. Currency exchange rates contributed 3 percentage points of the increase for the second quarter and 2 percentage points of the increase for the first six months. Excluding the effects of currency, operating overhead increases for the quarter and year-to-date periods were mainly attributable to higher personnel costs due to increased headcount, higher wages and benefits, and incentive based compensation reflecting our sales and profit growth (5 percentage points), implementation of new systems and infrastructure to support the growth of emerging markets in Asia and Central Europe (2 percentage points) and investments in NIKE-owned retail stores (1 percentage point for the quarter and 2 percentage points for the year-to-date period).

Other expense, net, was \$8.2 million for the second quarter of fiscal 2005, down from \$14.3 million in the second quarter of fiscal 2004. Other expense, net, for the first six months of fiscal 2005 was \$10.1 million compared to \$38.1 million for the same period of fiscal 2004. The most significant component of other expense, net, were net foreign currency losses. These losses are reflected in the Corporate line in our segment presentation of pre-tax income in Notes to Unaudited Condensed Consolidated Financial Statements (Note 8 - Operating Segments). Although second quarter foreign currency losses were slightly higher than the prior year, the year-over-year improvement in other expense, net, for the first six months was mainly due to lower foreign currency losses. Also contributing to the year-over-year improvement in other expense, net, were net losses on asset disposals recorded in the second quarter and first six months of fiscal 2004, including a loss of \$5.3 million for our basis in undeveloped land gifted to the NIKE Foundation in the first quarter of the prior year.

In the second quarter and first six months of fiscal 2005, net foreign currency losses in other expense, net, were more than offset by favorable translation of foreign currency denominated profits, most significantly in EMEA. We estimate that the net impact of these losses and the favorable translation was a year-over-year increase in consolidated income before income taxes of \$17 million and \$39 million for the quarter and six month period, respectively. Consistent with our Financial Risk Management Program, we have also hedged a portion of anticipated intercompany charges and investments in U.S. Dollar denominated debt securities classified as available-for-sale for the balance of fiscal 2005 and into fiscal 2006. If current exchange rates remain constant, we would expect the net impact of the foreign currency losses and the offsetting positive translation impact to result in a net benefit to fiscal 2005 and fiscal 2006 consolidated net income, although at a significantly lower level than the benefit realized throughout fiscal 2004. See further discussion in our Annual Report on Form 10-K as of May 31, 2004.

In the second quarter of fiscal 2005, we adjusted our year-to-date effective tax rate to 35.2%, our estimate of our effective rate for all of fiscal 2005. This rate is higher than the 34.8% rate reported for the second quarter and full year of fiscal 2004 primarily due to a lower level of expected research tax credits in the current fiscal year.

Our effective tax rate was not affected by the American Jobs Creation Act (the "Act"), which was signed into law by the President on October 22, 2004. The Act creates a temporary incentive for U.S. multinational corporations to repatriate accumulated income earned outside the U.S. by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations. According to the Act, the amount of eligible repatriation is limited to \$500 million or the amount described as permanently reinvested earnings outside the U.S. in the most recent audited financial statements filed with the Securities and Exchange Commission on or before June 30, 2003. Whether the Company will ultimately take advantage of this provision depends on a number of factors including potentially forthcoming Congressional actions, Treasury regulations and development of a qualified reinvestment plan. At this time, we have not made any changes to our position on reinvestment of certain foreign earnings.

Worldwide futures and advance orders for our footwear and apparel scheduled for delivery from December 2004 through April 2005 were 9.1% higher than such orders reported for the comparable period of fiscal 2004. Changes in currency exchange rates did not have a net impact on the increase versus the same period last year. Higher average selling prices for footwear across all regions contributed 2 points of the growth

in overall futures and advance orders. The remaining increase was due to volume increases for both footwear and apparel. As always, the reported futures orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations can cause differences in the comparisons between futures orders and actual revenues. Moreover, a significant portion of our revenue is not derived from futures orders, including wholesale sales of equipment, U.S. licensed team apparel, Bauer NIKE Hockey, Cole Haan, Converse, NIKE Golf, Hurley, Exeter Brands and retail sales across all brands.

## Operating Segments

The breakdown of revenues follows:

	Three Months Ended November 30,			Six Months Ended November 30		
	2004	2003	% change	2004	2003	% change
(in millions)						
U.S. REGION						
FOOTWEAR	\$ 680.0	\$ 624.0	9%	\$1,601.4	\$1,446.4	11%
APPAREL	384.7	398.3	-3%	776.0	744.8	4%
EQUIPMENT	67.3	60.7	11%	156.3	140.8	11%
TOTAL U.S.	1,132.0	1,083.0	5%	2,533.7	2,332.0	9%
EMEA REGION						
FOOTWEAR	531.8	472.5	13%	1,195.1	1,062.5	12%
APPAREL	370.0	324.9	14%	779.7	666.8	17%
EQUIPMENT	59.3	50.4	18%	144.2	130.1	11%
TOTAL EMEA	961.1	847.8	13%	2,119.0	1,859.4	14%
ASIA PACIFIC REGION						
FOOTWEAR	236.6	205.6	15%	455.2	408.4	11%
APPAREL	207.8	174.5	19%	356.6	287.8	24%
EQUIPMENT	39.1	31.9	23%	77.7	63.8	22%
TOTAL ASIA PACIFIC	483.5	412.0	17%	889.5	760.0	17%
AMERICAS REGION						
FOOTWEAR	129.8	103.6	25%	244.6	206.5	18%
APPAREL	46.9	41.3	14%	82.4	79.9	3%
EQUIPMENT	12.6	9.4	34%	24.0	19.0	26%
TOTAL AMERICAS	189.3	154.3	23%	351.0	305.4	15%
	2,765.9	2,497.1	11%	5,893.2	5,256.8	12%
OTHER	382.4	340.0	12%	816.9	605.2	35%
TOTAL REVENUES	\$3,148.3	\$2,837.1	11%	\$6,710.1	\$5,862.0	14%

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

For our largest international region, EMEA, changes in currency exchange rates accounted for 8 and 7 percentage points of the reported revenue growth for the second quarter and first six months of fiscal 2005, respectively. If we remove the effects of currency, second quarter revenue for the EMEA Region would have grown approximately 5 percentage points and the year-to-date revenue would have grown approximately 7 percentage points. Excluding the benefit from changes in currency exchange rates, the increase over the prior year quarter and year-to-date periods was primarily driven by increased unit sales of footwear (led by soccer, followed by active life and training products) and apparel (led by active life products for the quarter and sport performance products for the year-to-date period). Excluding the effect of changes in foreign currency, revenue growth for the second quarter and year-to-date periods was led by sales increases in Italy and the emerging markets in Central Europe, Turkey, Russia and Greece. These increases were partially offset in the second quarter by lower sales in France and for the first six months by lower sales in both France and Germany versus the same period last year.

For the EMEA Region, futures orders scheduled for delivery from December 2004 through April 2005 were 6 percentage points higher than such orders for the comparable period of fiscal 2004. Changes in currency exchange rates contributed 1 percentage point of this growth. Excluding the changes in currency exchange rates, the growth was driven by an increase in the region's wholesale footwear unit orders and to a lesser extent an increase in the footwear average selling price per pair.

EMEA pre-tax income for the second quarter of fiscal 2005 was \$197.6 million, up 43% versus the prior year quarter. For the first six months of fiscal 2005, pre-tax income grew 30% to \$444.0 million. For the quarter and the six-month periods, higher revenues and gross margin improvements drove the increase, more than offsetting increased selling and administrative costs. The improved gross margins, which contributed 80 basis points and 70 basis points of growth to the second quarter and year-to-date consolidated gross margin percentage, respectively, were primarily the result of improved year-over-year hedge rates partially offset by reduced margins on closeouts sales, a higher percentage of closeout sales and higher obsolescence reserves, most notably in our Apparel business.

In the Asia Pacific Region, 3 and 4 percentage points of revenue growth for the second quarter and first six months of fiscal 2005, respectively, were due to changes in currency exchange rates. Excluding the benefit from changes in currency exchange rates, sales in each Asia Pacific business unit (footwear, apparel and equipment) grew for both the quarter and year-to-date periods versus the same periods last year. Significant revenue increases in China (driven by expansion of retail distribution and strong consumer demand) and continued growth in Japan were key growth drivers for the quarter and year-to-date periods partially offset by lower sales in Korea and Australia.

Pre-tax income for the Asia Pacific Region increased 14% versus the second quarter of fiscal 2004 to \$112.0 million, and increased 1% to \$175.4 million in the fiscal 2005 year-to-date period. For the quarter, higher revenues and gross margin improvements were partially offset by increased selling and administrative costs, primarily due to additional demand creation spending for the expansion of market coverage in China, and investments in operating overhead due to the implementation of new supply chain systems in the region. For the first six months of fiscal 2005, higher revenues and gross margin improvements were mostly offset by increased selling and administrative costs primarily due to additional demand creation spending (for the Athens Olympics and expansion of market coverage in China), and investments in operating overhead (due to the implementation of new supply chain systems in the region). The higher gross margins, which contributed 10 basis points and 20 basis points of growth to the second quarter and year-to-date growth in the consolidated gross margin percentage, respectively, were primarily attributable to the benefit of better year-over-year hedge rates, partially offset by lower profitability on both in-line and closeout products.

In the Americas Region, 1 percentage point of the revenue growth for the second quarter was due to changes in currency exchange rates. For the first six months of fiscal 2005, revenue growth included a 1 percentage point decline due to changes in currency exchange rates. Excluding the currency effects, revenue growth for the quarter was driven by higher sales in South America, Mexico and Canada. For the first six months of fiscal 2005, revenue growth was driven by higher sales in South America and Mexico. Excluding the currency exchange rate impact, sales in each Americas business unit grew for both the quarter and year-to-date periods versus the same period last year.

In the second quarter of fiscal 2005, pre-tax income for the Americas Region increased 43% from the prior year quarter, to \$44.5 million. Year-to-date fiscal 2005 pre-tax income increased 17% to \$65.2 million. The increase in pre-tax income for the second quarter was attributable to higher revenues and an improved gross margin percentage partially offset by higher selling and administrative costs, primarily due to increased operational overhead spending. As investments in demand creation for the region was focused in the first quarter, pre-tax profitability for the second quarter grew at a rate significantly higher than that of the year-to-date period. For the year-to-date period higher revenues were partially offset by higher selling and administrative costs. The improved gross margin percentage contributed 10 basis points to the growth of the consolidated gross margin percentage for the second quarter and did not have an impact on the year-to-date consolidated gross margin percentage.

In the U.S. Region, the increase in US footwear revenue was due to an increase in average selling price per pair accounting for 8 and 6 percentage points of the U.S. footwear growth for the second quarter and first six months of fiscal 2005, respectively, and an increase in unit sales of 1 and 5 percentage points for the second quarter and six-month periods, respectively. The increase in average selling price per pair for the second quarter and first six months of fiscal 2005 was primarily due to a larger percentage of sales of performance products with a suggested retail price over \$100.

The decrease in apparel sales for the second quarter was primarily driven by decreases in licensed apparel primarily due to the expiration of our license agreement with the NBA and a shift in consumer preference towards branded apparel. This decrease was partially offset by growth in branded apparel led by sport performance and women's products. For the year-to-date period, growth in branded apparel more than offset the decreases in licensed apparel. For the remainder of fiscal 2005, we expect licensed apparel to continue to be below prior year levels due to the expiration of the agreement with the NBA, but expect growth in revenue from branded apparel.

For the U.S. Region, futures orders scheduled for delivery from December 2004 through April 2005 increased 10% versus the same period of the prior year. Futures orders increased due to both increased unit orders and average selling price per unit for wholesale footwear and apparel. As discussed above, these reported futures do not cover all components of our overall revenues, such as U.S. licensed apparel (expected to decrease as noted above), equipment, closeouts, at-once orders and retail sales. As a result, revenue growth for the December through April period may not track precisely in line with the reported futures growth.

For the second quarter, U.S. Region pre-tax income was \$232.6 million, a 21% increase versus the second quarter of fiscal 2004. Pre-tax income for the first six months of fiscal 2005 increased 14% to \$554.5 million. For the quarter, higher revenues, gross margin percentage improvements and lower selling and administrative costs drove the increase. For the year-to-date period, higher revenues and improved gross

margin percentage were partially offset by higher selling and administrative costs, primarily first quarter demand creation spending around the summer's global sporting events. The improved gross margins, which contributed 40 basis points and 30 basis of growth to the consolidated gross margin percentage for the second quarter and first six months of fiscal 2005, respectively, were primarily the result of higher footwear in-line pricing margins, lower third-party royalties driven by the expiration of the NBA license agreement and a lower level of closeout sales as a percentage of total sales.

Other revenues and pre-tax income for the second quarter and first six months of fiscal 2005 include results from Bauer NIKE Hockey, Inc., Cole Haan Holdings Incorporated, Converse Inc., Hurley International LLC, NIKE Golf, and Exeter Brands Group LLC. Exeter Brands Group LLC is a wholly owned subsidiary of NIKE, Inc., formed in the first quarter of fiscal 2005 to develop the Company's business in retail channels serving value-conscious consumers and operate the business obtained in the acquisition of Official Starter Properties LLC and Official Starter LLC (collectively "Official Starter"). For the second quarter, the increase in Other revenues was primarily driven by growth at Cole Haan. For the first six months, growth at both Cole Haan and the acquisition of Converse at the beginning of the second quarter of fiscal 2004 drove the year-over-year increase.

Other pre-tax income improved to \$20.8 million in the second quarter of fiscal 2005 from \$6.7 million in fiscal 2004 and improved to \$61.1 million in the year-to-date period from \$2.4 million in the same period of last year. For the second quarter, improved results from Converse, Cole Haan and the addition of Exeter Brands drove most of the year-over-year improvement. The addition of Converse in the second quarter of fiscal 2004, which contributed 7 percentage points to the year-to-date consolidated pre-tax income growth, combined with improved results from most of the Other businesses to drive the year-over-year improvement. Gross margin improvements in our Other businesses contributed 20 basis points and 30 basis points of growth to the consolidated gross margin percentage for the quarter and year-to-date periods, respectively.

## **Liquidity and Capital Resources**

### **Cash Flow Activity**

Cash provided by operations was \$755.5 million in the first six months of fiscal 2005, compared to \$773.0 million in the first six months of fiscal 2004. Our primary source of operating cash flow in the current period was net income of \$588.7 million compared to \$440.3 million in the first six months of last year, partially offset by a net increase in our investment in working capital primarily driven by lower accounts payable and accrued liabilities. Changes in accounts payable and accrued liabilities resulted in a use of cash to the Company due to timing of vendor payments and inventory receipts compared to a slight source of cash in the same period of the prior year. For the first six months of fiscal 2005, lower accounts receivable provided cash to the Company as we continue to improve management of accounts receivable, although at a lower level than that realized in the first six months of fiscal 2004. See further discussion in our Annual Report on Form 10-K as of May 31, 2004.

In the current quarter, we purchased approximately 0.6 million shares of NIKE's Class B common stock for \$48.6 million, bringing purchases for the first six months of fiscal 2005 and to date under the program to 2.8 million shares for \$203.7 million. The share repurchases were part of a \$1.5 billion share repurchase program that was approved by the Board of Directors in June 2004. We expect to continue to fund this program from operating cash flow. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Dividends declared per share of common stock in the second quarter of fiscal 2005 were \$0.25 per share, which reflected a \$0.05 increase compared to the previous quarterly dividend.

### **Capital Resources**

The company maintains a \$750 million multi-year revolving credit facility with a group of banks. The maturity date is November 20, 2008 and the company can seek to have the facility extended for one additional year on the anniversary date. On the most recent anniversary date, the company elected not to extend the facility for one additional year, effectively changing the term to 4 years. All other terms and conditions are unchanged from those described in our Annual Report on Form 10-K as of May 31, 2004. No amounts are currently outstanding under the facility.

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

Liquidity is also provided by our commercial paper program, under which there was no amount outstanding at November 30, 2004 or May 31, 2004. We currently have short-term debt ratings of A1 and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

We currently believe that cash generated by operations, together with access to external sources of funds as described above and in our Annual Report on Form 10-K as of May 31, 2004, will be sufficient to meet our operating and capital needs in the foreseeable future.

### **Recently Issued Accounting Standards**

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" (FAS 151). FAS 151 clarifies that abnormal inventory costs such as costs of idle

facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS No. 151 are effective for our fiscal year beginning June 1, 2006. We are currently evaluating the provisions of FAS 151 and do not expect that the adoption will have a material impact on our consolidated financial position or results of operations.

On December 16, 2004, the FASB finalized SFAS No. 123R "Share Based Payment," which will be effective for interim or annual reporting periods beginning after June 15, 2005. The new standard will require us to expense stock options and the FASB believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee share options. We have begun a process to analyze how the utilization of a binomial lattice model could impact the valuation of our options. The effect of expensing stock options on our results of operations using the Black- Scholes model is presented in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements (Note 6 - Stock-Based Compensation).

### **Critical Accounting Policies**

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

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

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

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

There have been no material changes from the information previously reported under Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004.

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

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

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of November 30, 2004.

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

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

Certain written and oral statements, other than purely historical information including estimates, projections, statements relating to NIKE's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, made or incorporated by reference from time to time by NIKE or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "project," "will be," "will continue," "will likely result," or words or phrases of similar meaning. Forward-looking

statements involve risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by NIKE with the S.E.C., including Forms 8-K, 10-Q, and 10-K, and include, among others, the following: international, national and local general economic and market conditions; the size and growth of the overall athletic footwear, apparel, and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic footwear, apparel, and equipment for consumers and endorsers; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products, and sports; seasonal and geographic demand for NIKE products; difficulties in anticipating or forecasting changes in consumer preferences, consumer demand for NIKE products, and the various market factors described above; difficulties in implementing, operating, and maintaining NIKE's increasingly complex information systems and controls, including, without limitation, the systems related to demand and supply planning, and inventory control; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance "futures" orders may not be indicative of future revenues due to the changing mix of futures and at- once orders; the ability of NIKE to sustain, manage or forecast its growth and inventories; the size, timing and mix of purchases of NIKE's products; new product development and introduction; the ability to secure and protect trademarks, patents, and other intellectual property performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas and political and economic instability; changes in government regulations; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

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

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

## Part II - Other Information

### Item 1.

#### Legal Proceedings

There have been no significant developments from the information previously reported under Item 4 of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2004.

### Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity

#### Securities

The following table presents a summary of share repurchases made by NIKE during the quarter ended November 30, 2004 under the four-year \$1.5 billion share repurchase program authorized by our Board of Directors and announced in June 2004.

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(in millions)
September 1 - 30, 2004	411,100	\$ 76.78	411,100	\$ 1,313.3
October 1 - 31, 2004	215,200	\$ 79.02	215,200	\$ 1,296.3
November 1 - 30, 2004	---	---	---	\$ 1,296.3
Total	626,300	\$ 77.55	626,300	
	=====	=====	=====	

### Item 4.

## Submission of Matters to a Vote of Security Holders

The Company's annual meeting of shareholders was held on September 20, 2004. The shareholders elected for the ensuing year all of management's nominees for the Board of Directors and ratified the appointment of PricewaterhouseCoopers LLP as independent accountants for fiscal 2005.

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:				
Thomas E. Clarke	75,768,261	-0-	-0-	
Ralph D. DeNunzio	75,768,261	-0-	-0-	
Delbert J. Hayes	75,768,261	-0-	-0-	
Douglas G. Houser	75,768,261	-0-	-0-	
Philip H. Knight	75,768,261	-0-	-0-	
John R. Thompson, Jr.	75,568,261	200,000	-0-	
Elected by holders of Class B Common Stock:				
Jill K. Conway	162,549,581	3,088,759	-0-	
Alan B. Graf, Jr.	160,814,388	4,823,952	-0-	
Jeanne P. Jackson	157,094,082	8,544,258	-0-	
	For	Against	Abstain	Broker Non-Votes
Proposal 2 - Ratify the appointment				

of PricewaterhouseCoopers LLP  
as independent accountants:

Class A and Class B  
Common Stock Voting  
Together 236,748,105 3,490,408 1,167,087 -0-

## Item 6. 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 Current Report on Form 8-K filed November 18, 2004).

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

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

10.1 NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference from Exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2004).\*

12.1 Computation of Ratio of Earnings to Fixed Charges.

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

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

32.1 Section 1350 Certificate of Chief Executive Officer.

32.2 Section 1350 Certificate of Chief Financial Officer.

\* Management contract or compensatory plan or arrangement.

## SIGNATURES

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

NIKE, Inc. An Oregon Corporation

*/s/ Donald W. Blair*

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*Donald W. Blair*  
*Chief Financial Officer*

*DATED: December 22, 2004*

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

	Six Months Ended November 30,	
	2004	2003
	(in millions)	
Net income	\$588.7	\$440.3
Income taxes	319.8	235.0
Income before income taxes	908.5	675.3
Add fixed charges		
Interest expense (A)	19.7	22.8
Interest component of leases (B)	37.1	33.5
Total fixed charges	56.8	56.3
Earnings before income taxes and fixed charges (C)	\$ 965.3	\$731.5
Ratio of earnings to total fixed charges	17.0	13.0

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

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

## EXHIBIT 31.1

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

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

*Date: December 22, 2004*

*/s/ Philip H. Knight*

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*Philip H. Knight  
Chief Executive Officer*

## EXHIBIT 31.2

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

I, Donald W. Blair, certify that:

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

*Date: December 22, 2004*

*/s/ Donald W. Blair*

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*Donald W. Blair  
Chief Financial Officer*

**EXHIBIT 32.1**

**Certification of Chief Executive Officer**

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

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended November 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: December 22, 2004*

*/s/ Philip H. Knight*

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*Philip H. Knight  
Chief Executive Officer*

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

**Certification of Chief Financial Officer**

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

- (i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended November 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: December 22, 2004*

*/s/ Donald W. Blair*

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*Donald W. Blair*  
*Chief Financial Officer*

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

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**End of Filing**

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