

# NIKE INC

## FORM 10-Q (Quarterly Report)

Filed 04/14/97 for the Period Ending 02/28/97

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 4/14/1997 For Period Ending 2/28/1997

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

# 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 February 28, 1997 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 .

Common Stock shares outstanding as of February 28, 1997 were:

Class A	101,711,498
Class B	187,018,047
	<hr/>
	288,729,545
	=====

#### PART 1 - FINANCIAL INFORMATION

##### Item 1. Financial Statements

NIKE, Inc.

##### CONDENSED CONSOLIDATED BALANCE SHEET

Feb. 28,                      May 31,  
1997                              1996



Costs and expenses:				
Costs of sales	1,435,427	953,316	4,075,174	2,794,824
Selling and administrative	577,579	387,534	1,637,569	1,110,292
Interest expense	15,793	12,086	38,687	31,864
Other (income)/expense, net	7,716	11,429	16,210	29,053
	<u>2,036,515</u>	<u>1,364,365</u>	<u>5,767,640</u>	<u>3,966,033</u>
Income before income taxes	387,133	217,674	1,044,968	672,784
Income taxes	150,000	83,800	404,900	259,000
Net income	\$ 237,133 =====	\$ 133,874 =====	\$ 640,068 =====	\$ 413,784 =====
Net income per common share(Note 2)	\$ 0.80 =====	\$ 0.45 =====	\$ 2.16 =====	\$ 1.41 =====
Dividends declared per common share	\$ 0.10 =====	\$ 0.08 =====	\$ 0.28 =====	\$ 0.21 =====
Average number of common and common equivalent shares (Note 2)	297,368 =====	294,212 =====	296,915 =====	292,984 =====

\*For comparable purposes with 1996, results for the three and nine months ended February 29, 1996 have been adjusted to reflect the elimination of the one month lag in reporting by certain of the Company's international operations. See further discussion under Note 5.

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

### NIKE, Inc.

#### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended February 28 & 29,	
	1997	1996*
	(in thousands)	
Cash provided (used) by operations:		
Net income	\$ 640,068	\$ 413,784
Income charges (credits) not affecting cash:		
Depreciation	94,777	65,347
Deferred income taxes	(13,806)	(21,303)
Other	37,092	15,157
Changes in other working capital components	(701,328)	(363,246)
Cash provided by operations	<u>56,803</u>	<u>109,739</u>
Cash provided (used) by investing activities:		
Additions to property, plant and equipment	(317,580)	(146,618)
Disposals of property, plant and equipment	23,218	5,386
Increase in other assets	(55,626)	(3,465)
Decrease in other liabilities	(10,859)	--
Cash used by investing activities	<u>(360,847)</u>	<u>(144,697)</u>
Cash (used) provided by financing activities:		
Additions to long-term debt	300,135	1,793
Reductions in long-term debt	(11,044)	(27,735)
Increase in notes payable	67,166	176,419
Proceeds from exercise of options	18,133	15,765
Repurchase of stock	--	(18,756)
Dividends paid - common and preferred	(71,991)	(57,295)

Cash provided by financing activities	302,399	90,191
Effect of exchange rate changes on cash	(2,675)	(5,258)
Effect of May 1996 Cash Flow Activity for certain subsidiaries (Note 5)	43,004	--
Net increase in cash and equivalents	38,684	49,975
Cash and equivalents, May 31, 1996 and 1995	262,117	220,935
Cash and equivalents February 28 & 29, 1997 and 1996	\$300,801 =====	\$270,910 =====

\*For comparable purposes with 1996, results for the nine months ended February 29, 1996 have been adjusted to reflect the elimination of the one month lag in reporting by certain of the Company's international operations. See further discussion under Note 5.

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(s). The interim financial information and notes thereto should be read in conjunction with the Company's latest annual report to shareholders. The results of operations for the three and nine months ended February 28, 1997 are not necessarily indicative of results to be expected for the entire year.

#### NOTE 2 - Net income per common share:

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

During the second quarter, the Company issued additional shares in connection with a two-for-one stock split effected in the form of a 100% stock dividend on outstanding Class A and Class B common stock. The per common share amounts in the Consolidated Financial Statements and accompanying notes have been adjusted to reflect this stock split.

#### NOTE 3 - Inventories:

Inventories by major classification are as follows:

	Feb. 28, 1997	May 31, 1996
	_____	_____
	(in thousands)	
Finished goods	\$ 999,801	\$874,700
Work-in-process	50,471	28,940
Raw materials	38,871	27,511
	_____	_____
	\$1,089,143 =====	\$931,151 =====

#### NOTE 4 - Commitments and contingencies:

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 5 - Change in year-end of certain subsidiaries:

Prior to fiscal year 1997, certain of the Company's international operations reported their results of operations on a one month lag which allowed more time to compile results. The Company has taken steps to improve its internal reporting procedures that has allowed for more timely reporting of these operations. Beginning in the first quarter of fiscal year 1997, the one month lag was eliminated. As a result, the May 1996 loss from operations for these entities of \$4.1 million was recorded directly to retained earnings in the first quarter of the current year. The income and cash flow statements have been presented to show comparable results for the quarter and year as if the change had occurred in the prior year. The effect of the change is not material to the consolidated balance sheet and as a result the balance sheet as of May 31, 1996 has not been adjusted.

#### NOTE 6 - Long-term debt:

In December of 1996, the Company issued \$200 million seven-year notes, maturing December 1, 2003. The proceeds were subsequently swapped into Dutch Guilder and loaned to a European subsidiary. Interest on the loan is paid semi-annually at a fixed Dutch Guilder rate of 5.64%.

As of June 27, 1996, the Company's Japanese subsidiary borrowed 10.5 billion Japanese yen in a private placement with a maturity of June 26, 2011. Interest is paid semi-annually at 4.3%. The agreement provides for early retirement after year ten.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULT OF OPERATIONS AND FINANCIAL CONDITION

### Operating Results

Net income increased 77% over the prior year's third quarter and 55% on a year-to-date basis. For the quarter, in comparison to last years third quarter, the increase in net income was attributed primarily to an increase in revenues of 53% (to a record \$2.4 billion), an increase in gross margin percentage from 39.7% to 40.8% and improved leverage of selling and administrative costs as a percentage of revenues. For the nine months ended February 28, 1997, net income was up 55% over the same period last year, driven by an increase in revenues of 47% and an improved gross margin percentage.

NIKE brand revenues increases for the quarter and year-to-date, compared with the same periods last year, were driven by the strength of the brand on a global basis. U.S apparel increases for the quarter and year-to-date were driven by increases in training, accessories and kids' categories. U.S. footwear for the quarter increased \$313.6 million or 47%, due to an increase of 34% pairs sold and an 10% increase in average selling prices. Nearly every footwear category experienced increases. For the year, the largest category increases in terms of total dollars were men's basketball, up 47%, women's fitness, up 60%, kids' footwear, up 60%, and men's running, up 73%. Other categories showing large percentage increases included golf and soccer.

All regions outside the U.S. experienced significant revenue increases for the quarter and year-to-date. For the quarter, Europe increased 62%, (footwear up 48% and apparel up 105%), Asia Pacific increased 76% (footwear up 69% and apparel up 95%) and the Americas increased 64% (footwear up 51% and apparel up 131%). The top two countries, in terms of revenue, Japan and United Kingdom, increased 86% and 94%, respectively. Each would have increased more than 100% had exchange rates remained the same as the prior year. The total impact of exchange rates on the quarter's revenue was to decrease it by \$64 million, or 11%. For the year, rates have decreased revenues by \$157 million, or 10%.

The breakdown of revenues follows:

	Three Months Ended February 28 & 29,			Nine Months Ended February 28 & 29,		
	1997	1996*	% Change	1997	1996*	% Change
U.S. Footwear	\$ 982,166	\$ 668,545	47%	\$2,800,552	\$1,998,610	40%
U.S. Apparel	356,316	218,512	63	1,086,571	596,790	82
<b>Total United States</b>	<b>1,338,482</b>	<b>887,057</b>	<b>51</b>	<b>3,887,123</b>	<b>2,595,400</b>	<b>50</b>
International Footwear	689,064	445,228	55	1,754,831	1,202,422	46
International Apparel	293,821	144,083	104	788,181	452,030	74
<b>Total International</b>	<b>982,885</b>	<b>589,311</b>	<b>67</b>	<b>2,543,012</b>	<b>1,654,452</b>	<b>54</b>
Other Brands	102,281	105,671	(3)	382,473	388,965	(2)
<b>Total Revenues</b>	<b>\$2,423,648</b>	<b>\$1,582,039</b>	<b>53%</b>	<b>\$6,812,608</b>	<b>\$4,638,817</b>	<b>47%</b>
	=====	=====		=====	=====	

\*For comparable purposes with 1996, results for the three and nine months ended February 29, 1996 have been adjusted and reflect the elimination of the one month lag in reporting by certain of the Company's international operations. See further discussion under Note 5.

The increase in gross margin percentage for the quarter compared with the same period last year is most significantly attributable to the U.S. Footwear and Europe businesses. The increase in U.S. Footwear's gross margin percentage is due primarily to price increases and changes to product mix. Europe continues to experience the benefits of centralized distribution centers. Gross profit percentages for the remainder of fiscal year 1997 are expected to continue to be affected by both strong demand for NIKE products and increased prices compared with last year, offset by increased levels of air freight to meet the delivery dates on increasing customer orders. At this time, Management expects the percentage for the full year to be more in line with last fiscal year's percentage.\*

The reduction in selling and administrative expenses as a percentage of revenues for the quarter can be attributed primarily to the significant increase in revenues. The largest areas of spending increases relate to advertising, marketing and infrastructure costs. At this time, Management expects selling and administrative expenses as a percentage of revenues for the remainder of the year to be at levels slightly higher than the prior year.\*

Interest expense increased for both the quarter and year-to-date over the prior year due to increased short term borrowings and new long-term debt in the U.S. and Japan in order to fund growing operations. Other (income)/expense, net decreased due to increased interest income and less conversion loss on foreign transactions, offset by increased profit share expense.

The Company's effective tax rate for the year-to-date was 38.75% compared to 38.5% in the prior year. The slight increase is due primarily to higher state income taxes on U.S. earnings. At this time, Management anticipates the tax rate for fiscal 1997 will remain at approximately 38.75%.\*

Worldwide orders for NIKE Brand athletic footwear and apparel scheduled for delivery from March 1997 through July 1997 were approximately \$4.3 billion, 34% higher than such orders booked in the comparable period of the prior year. These orders and the percentage growth in these orders are not necessarily indicative of the growth in revenues which the Company will experience for the subsequent periods. This is because the mix of advance futures and "at once" orders has shifted significantly toward futures orders as the NIKE brand became more established in all areas, specifically in the U.S. apparel business and in international regions. The mix of advance orders to "at once" orders will continue to vary as the U.S. apparel business and international operations continue to account for a greater percentage of total revenues and place a greater emphasis on futures programs.\* Finally, exchange rates can cause differences in the comparisons.\*

As further explained in Note 5, prior to fiscal year 1997, certain of the Company's international operations reported their results of operations on a one month lag which allowed more time to compile results. The Company has taken steps to improve its internal reporting procedures that has allowed for more timely reporting of these operations. Beginning in the first quarter of fiscal year 1997, the one month lag was eliminated. As a result, the May 1996 results of operations for these entities of \$4.1 million loss was recorded to retained earnings. The income statement and cash flow has been presented to show comparable results for the quarter as if the change would have occurred in the prior year. Throughout this discussion, comparisons for last year are stated as they would have appeared had these entities reported on a same month basis.

### **Liquidity and Capital Resources**

The Company's financial position remains strong at February 28, 1997. Since May 31, 1996, total assets grew \$993 million to \$4.9 billion and shareholders' equity increased \$583 million to \$3.0 billion. Working capital increased \$637 million, and the Company's current ratio increased to 2.2 at February 28, 1997 from 1.9 at May 31, 1996.

Changes in other working capital components totaled \$701 million, due primarily to significant increases in accounts receivable and inventory. Since May 31, 1996, accounts receivable increased \$504 million or 37%, due to higher levels of revenues compared with the fourth quarter of the prior year. Inventory levels increased \$158 million from May 31, consistent with the growth of the business. U.S. inventory levels increased \$57 million on U.S. footwear's \$44 million increase. U.S. footwear inventory turns increased to 9.1 from 8.1 at May 31, 1996. Outside of the U.S., inventory increased \$92 million in the Asia Pacific region, the majority of the increase coming from the Company's Japanese subsidiary due to revenue growth. Consolidated inventory turns increased to 5.3 compared to 5.0 at May 31, 1996. All other components of working capital changed only slightly compared to May 31, 1996. An increase in other current assets was offset by an increase in accounts payable due to timing of payments.

Additions to property, plant and equipment in the U.S. totaled \$206 million for the first three quarters of fiscal 1997 due to the continued overall expansion of U.S. operations which included warehouse locations and the continued development of NIKE Town retail stores. Additions to property, plant and equipment outside of the U.S. accounted for \$86 million of the \$318 million total. The most significant increase relates to expansion of the European warehouses. In addition to the increases in property, plant and equipment, other assets increased from May 31, 1996, due primarily to advance payments made in fiscal 1997 for long-term endorsement contracts.

Cash was provided from financing activities through an increase of \$289 million in long-term debt to fund growing operations, including infrastructure. In December, 1996, the Company issued \$200 million seven-year notes, maturing December 1, 2003. The proceeds were subsequently swapped into Dutch Guilders and then loaned to a European subsidiary. Proceeds from this intercompany loan will be used by the subsidiary to retire short-term debt. This debt issuance, along with the 10.5 billion Japanese yen (approximately \$100 million) borrowed by the Company's Japanese subsidiary in the first quarter, account for the majority of the increase in long-term debt.

The Company's commercial paper program requires the support of committed and uncommitted lines of credit. The Company borrows against its commercial paper program and, at February 28, 1997, there was \$158 million outstanding. The Company has \$500 million available in committed, unused lines of credit and, at quarter-end, no amounts were outstanding under this credit facility. NIKE's debt-to-equity ratio at

February 28, 1997 remained constant from May 31 at 0.6.

Management believes that funds generated by operations, together with currently available resources and long-term debt arrangements, will continue to adequately finance anticipated fiscal 1997 expenditures.\*

\*The marked items are forward-looking statements that involve risks and uncertainties detailed from time to time in reports filed by NIKE with the S.E.C., including Forms 8-K, 10-Q, and 10-K.

## **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, 1996.

### **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 first 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 first 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).

10.1 Credit Agreement dated as of September 15, 1995 among NIKE, Inc., Bank of America National Trust & Savings Association, 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 quarter ended August 31, 1995).

10.2 Form of non-employee director Stock Option Agreement (incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1993).\*

10.3 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).

10.4 NIKE, Inc. Restated Employee Incentive Compensation Plan (incorporated by reference from Registration Statement No. 33-29262 on Form S-8 filed by the Company on June 16, 1989).\*

10.5 NIKE, Inc. 1990 Stock Incentive Plan (incorporated by reference from the Company's definitive proxy statement filed in connection with its annual meeting of shareholders held on September 17, 1990).\*

10.6 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).\*

10.7 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, 1995).\*

10.8 NIKE, Inc. Supplemental Executive Savings Plan (incorporated by reference from Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1996).\*

12.1 Computation of Ratio of Earnings to Fixed Charges

## **27 Financial Data Schedule.**

\* Management contract or compensatory plan or arrangement.

(b) The following reports on Form 8-K were filed by the Company during the first quarter of fiscal 1997:

None

## **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/ Robert S. Falcone*

*Robert S. Falcone  
Vice President,  
Chief Financial Officer*

*DATED: April 14, 1997*

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

	Nine Months Ended February 28 and 29,	
	1997	1996*
	(in thousands)	
Net income	\$ 640,068	\$ 413,784
Income taxes	404,900	259,000
	<hr/>	<hr/>
Income before income taxes	1,044,968	672,784
	<hr/>	<hr/>
Add fixed charges		
Interest expense (A)	40,857	31,864
Interest component of leases (B)	19,329	12,756
	<hr/>	<hr/>
Total fixed charges	60,186	44,620
	<hr/>	<hr/>
Earnings before income taxes and fixed charges (C)	\$1,102,984 =====	\$ 717,404 =====
	<hr/>	<hr/>
Ratio of earnings to total fixed charges	18.33 =====	16.08 =====

\*For comparable purposes with 1996, results for the nine months ended February 29, 1996 have been adjusted to reflect the elimination of the one month lag in reporting by certain of the Company's international operations.

(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.

## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FEBRUARY 28, 1997 FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	MAY 31 1997
PERIOD END	FEB 28 1997
CASH	300,801
SECURITIES	0
RECEIVABLES	1,850,310
ALLOWANCES	61,219
INVENTORY	1,089,143
CURRENT ASSETS	3,500,500
PP&E	1,294,483
DEPRECIATION	465,691
TOTAL ASSETS	4,944,501
CURRENT LIABILITIES	1,603,841
BONDS	289,375
COMMON	2,857
PREFERRED MANDATORY	0
PREFERRED	300
OTHER SE	3,011,642
TOTAL LIABILITY AND EQUITY	4,944,501
SALES	6,812,608
TOTAL REVENUES	6,812,608
CGS	4,075,174
TOTAL COSTS	4,075,174
OTHER EXPENSES	1,630,746
LOSS PROVISION	23,033
INTEREST EXPENSE	38,687
INCOME PRETAX	1,044,968
INCOME TAX	404,900
INCOME CONTINUING	640,068
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	640,068
EPS PRIMARY	2.16
EPS DILUTED	2.16

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