

NIKE INC

FORM 10-Q (Quarterly Report)

Filed 01/14/98 for the Period Ending 11/30/97

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 1/14/1998 For Period Ending 11/30/1997

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 November 30, 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 November 30, 1997 were:

Class A 101,487,153

Class B 189,166,005

290,653,158

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

NIKE, Inc.

CONDENSED CONSOLIDATED BALANCE SHEET

Nov. 30,
1997

May 31,
1997

Costs and expenses:				
Cost of sales	1,409,522	1,277,628	3,074,987	2,639,747
Selling and administrative	593,044	530,453	1,251,960	1,059,990
Interest	17,136	10,228	34,055	22,894
Other expense (income)	6,321	(147)	19,490	8,494
	<u>2,026,023</u>	<u>1,818,162</u>	<u>4,380,492</u>	<u>3,731,125</u>
Income before income taxes	229,249	288,872	640,879	657,835
Income taxes	88,200	112,000	246,700	254,900
Net income	\$ 141,049	\$ 176,872	\$ 394,179	\$ 402,935
	=====	=====	=====	=====
Net income per common share(Note 2)	\$ 0.48	\$ 0.60	\$ 1.33	\$ 1.36
	=====	=====	=====	=====
Dividends declared per common share	\$ 0.12	\$ 0.10	\$ 0.22	\$ 0.18
	=====	=====	=====	=====
Average number of common and common equivalent shares (Note 2)	296,721	297,022	297,110	296,693
	=====	=====	=====	=====

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

NIKE, Inc.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended November 30,	
	1997	1996
	(in thousands)	
Cash provided (used) by operations:		
Net income	\$394,179	\$402,935
Income charges (credits) not affecting cash:		
Depreciation	88,058	58,199
Deferred income taxes and purchased tax benefits	(8,765)	(5,910)
Other	15,237	11,742
Changes in other working capital components	(199,655)	(341,950)
	<u>289,054</u>	<u>125,016</u>
Cash provided by operations		
Cash (used) provided by investing activities:		
Additions to property, plant and equipment	(241,999)	(187,579)
Disposals of property, plant and equipment	5,369	19,353
Increase in other assets	(50,763)	(25,476)
Decrease in other liabilities	(10,742)	(9,652)
	<u>(298,135)</u>	<u>(203,354)</u>
Cash used by investing activities		
Cash provided (used) by financing activities:		
Additions to long-term debt	101,295	99,789
Reductions in long-term debt including current portion	(1,118)	(10,023)
Decrease in notes payable	(311,465)	(27,710)
Proceeds from exercise of options	17,699	13,242
Repurchase of stock	(33,162)	--
Dividends paid - common and preferred	(57,978)	(43,153)
	<u>(284,729)</u>	<u>32,145</u>
Cash provided (used) by financing activities		

Effect of exchange rate changes on cash	(11,925)	8,606
	<hr/>	<hr/>
Effect of May 1996 cash flow activity for certain subsidiaries (Note 5)	--	43,004
	<hr/>	<hr/>
Net (decrease) increase in cash and equivalents	(305,735)	5,417
Cash and equivalents, May 31, 1997 and 1996	445,421	262,117
	<hr/>	<hr/>
Cash and equivalents, November 30, 1997 and 1996	\$139,686	\$267,534
	=====	=====

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 (3) and six (6) months ended November 30, 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).

On October 23, 1996 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:

	Nov. 30, 1997	May 31, 1997
	<hr/>	<hr/>
	(in thousands)	
Finished goods	\$1,372,080	\$1,248,401
Work-in-process	36,129	50,245
Raw materials	40,341	39,994
	<hr/>	<hr/>
	\$1,448,550	\$1,338,640
	=====	=====

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 non-U.S. operations reported their results of operations on a one month lag which allowed more time to compile results. Beginning in the first quarter of fiscal year 1997, the one month lag was eliminated. As a result, the May 1996 charge from operations for these entities of \$4.1 million was recorded to retained earnings in the first quarter of fiscal year 1997.

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

Operating Results

Net income for the second quarter of fiscal year 1998 decreased 20% to \$141.0 million or \$0.48 per share compared to \$176.9 million or \$0.60 per share last year. Year to date, net income was \$394.2 million or \$1.33 per share compared to \$402.9 million or \$1.36 per share last year, a decrease of two percent. Revenues increased seven percent (14% year to date) over the prior year's second quarter, rising to \$2.3 billion for the quarter from \$2.1 billion last year. Gross margins for the quarter were 37.5 percent of sales and 38.8 percent year to date, compared to 39.4 percent and 39.9 percent last year, respectively. Selling and administrative expenses were 26.3 percent of second quarter revenues, compared to 25.2 percent last year, and 24.9 percent year to date compared with 24.2 percent for the prior year.

Revenues increased \$148.2 million for the quarter and \$632.4 million year-to-date, which represents a seven percent and 14% increase over last year's revenues, respectively. Non-U.S. brand revenues, which represent the majority of the growth, increased 14% for the quarter and 30% on a year-to-date basis over the prior year. Had the dollar remained constant with that of the prior year, non-U.S. revenues would have increased 24% for the quarter and 41% on a year-to-date basis. For the quarter, Europe increased five percent (17% on a constant dollar basis), Asia Pacific increased 18% (28% on a constant dollar basis), with the largest country, Japan, increasing 24% (35% on a constant dollar basis), and the Americas (which includes Canada and Latin America) increased 40% (42% on a constant dollar basis). Year to date, Europe increased 20% (34% on a constant dollar basis), Asia Pacific increased 39% (49% on a constant dollar basis), Japan increased 58% (71% on a constant dollar basis), and the Americas increased 48% (50% on a constant dollar basis).

Total U.S. brand revenues increased two percent for the quarter and six percent year to date compared to the prior year. U.S. apparel revenues increased 12% in the quarter and 17% on a year-to-date basis. Training, the largest apparel category, increased four percent in the quarter. The key apparel growth categories of golf, running, outdoor and soccer all experienced double-digit increases in the quarter. U.S. footwear revenues were down three percent in the quarter and increased one percent on a year-to-date basis. The primary reason for the decline in U. S. footwear revenues for the quarter and relative flat comparison on a year-to-date basis is due to the relative slow down in the U.S. retail markets as well as the difficult comparison against significant growth rates experienced in the prior periods and the resulting increased revenue base. For the quarter, basketball revenues, including the Jordan brand, increased nine percent; running, after almost three years of double-digit quarterly gains, was down nine percent; training declined 15%, while soccer and golf posted increases of 106% and 94%, respectively.

Other and Other Brands, which includes NIKE brand equipment, Bauer Inc., Cole Haan, Sports Specialties, and Tetra Plastics, increased 13% to \$158.6 million for the quarter and five percent to \$307.0 million year to date. The increase for the quarter and year to date was primarily due to NIKE brand equipment increases against a relatively small base partially offset by a decline in the Other Brands.

The Company expects total revenue growth for fiscal 1998 to be slightly higher than the prior year. The reduced level of growth rates compared with recent years reflects the sluggish U.S. retail environment and the significant downturn in the Asian markets, offset by growth in Europe and the Americas.

The breakdown of revenues follows:

	Three Months Ended November 30,			Six Months Ended November 30,		
	1997	1996	% Change	1997	1996	% Change
	(in thousands)					
U.S. Footwear	\$ 787,635	\$ 814,861	-3%	\$1,843,667	\$1,816,454	1%
U.S. Apparel	418,260	372,571	12	843,501	718,772	17
Total United States	1,205,895	1,187,432	2	2,687,168	2,535,226	6
Non-U.S. Footwear	545,161	517,229	5	1,314,782	1,065,767	23
Non-U.S. Apparel	345,594	262,021	32	712,446	494,360	44
Total Non-U.S.	890,755	779,250	14	2,027,228	1,560,127	30
Other & Other Brands	158,622	140,352	13	306,975	293,607	5
Total Revenues	\$2,255,272	\$2,107,034	7%	\$5,021,371	\$4,388,960	14%
	=====	=====	===	=====	=====	===

The reduction in gross margins as a percentage of revenues, compared with the prior year's second quarter, was primarily attributable to a higher percentage of close-out product sales and, to a lesser extent, higher levels of research, design and development costs. The increased mix of close-out product sales compared to total sales is a result of increased inventory levels from the sudden slow-down in key Asian markets, the sluggish U.S. retail environment and European sales returning to a more normal level of close-out sales as a percentage of total sales.

Management expects the fiscal 1998 gross margin percentage to be lower than the prior year, primarily due to higher levels of close-out sales and increased sales of lower priced products, higher product costs and increased spending on infrastructure to support the higher levels of operations.

Selling and administrative expenses increased \$62.6 million over the previous year's second quarter and \$192.0 million year-to-date. The majority of the increase was attributable to planned increased spending to support the long-term growth in the business, including personnel and other infrastructure-related costs and endorsement contracts. The Company continues to invest in long-term growth plans, more predominately outside the U.S., and expects that selling and administrative expenses as a percentage of revenues will be 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 for growing operations, predominately outside the U.S., financing increased inventories and receivables. Other expense increased a net \$6.5 million for the quarter due to non-recurring income items experienced in the prior year, principally a promotional event in Japan and conversion gains on foreign transactions.

Worldwide futures and advance orders for NIKE Brand athletic footwear and apparel scheduled for delivery from December 1997 through April 1998 totaled \$4.2 billion, one percent lower than such orders for the same period last year. These orders and the percentage change in these orders are not necessarily indicative of the change in revenues which the Company will experience for subsequent periods. This is due to potential shifts in the mix of advance futures orders in relation to at once orders and varying cancellation rates. Finally exchange rate fluctuations will also cause differences in the comparisons. The relative flat rate of growth in futures compared with the same period last year is a result of lower than expected orders in the Asian markets, most notably Japan, difficult growth comparisons against high prior year base levels and the sluggish U.S. retail environment.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remained strong at November 30, 1997. Compared to May 31, 1997, total assets were relatively unchanged at \$5.4 billion while shareholder's equity increased \$300 million to \$3.5 billion. Working capital increased \$216 million, to \$2.2 billion, and the Company's current ratio increased to 2.5 at November 30, 1997 from 2.1 at 1997 fiscal year-end. The increase in working capital was due to higher inventory levels resulting from the slowdown in the Asian economies and an increase in order cancellations coupled with the shift in debt from short-term to long-term.

Cash provided by operations was \$289 million for the six months ended November 30, 1997, an increase of \$164 million over last year's first six months, primarily due to decreased working capital requirements as a result of lower growth rates in the U.S. compared to the first six months of fiscal 1997.

Additions to property, plant and equipment for the first six months of fiscal 1998 were \$242 million. Additions in the U.S. totaled \$102 million due to continued overall expansion of U.S. operations which included warehouse locations, world headquarters expansion, management information systems and the continued development of NIKETOWN retail locations. Outside the U.S., additions totaled \$131 million and was largely attributable to the development and expansion of new and existing warehouse facilities. In addition to the increases in property, plant and equipment, other assets increased from May 31, 1997 due, in large part, to advance payments made in the first quarter for long-term endorsement contracts.

Additions to long-term debt totaled \$101 million for the first six months of fiscal 1998. In fiscal 1997 the Company filed a shelf registration with the Securities and Exchange Commission for the sale of up to \$500 million of debt securities. Under this program, the Company issued \$100 million medium term notes in the first quarter of fiscal 1998, maturing in three to five years. The proceeds were swapped into Dutch Guilders and the Company used this long-term fixed rate debt financing, in addition to excess cash, to pay down the Company's European short-term debt. This resulted in a net reduction of \$311 million in notes payable in the first two quarters of fiscal 1998.

Management believes that significant funds generated by operations, together with access to sufficient sources of funds, will adequately meet its anticipated operating, global infrastructure expansion and capital needs. Significant short and long-term lines of credit are maintained with banks which, along with cash on hand, provide adequate operating liquidity. Liquidity is also provided by the Company's commercial paper program under which there was \$0 outstanding at November 30, 1997.

During the quarter, the Company announced that its Board of Directors approved a plan to repurchase a maximum of \$1 billion shares of NIKE Class B Common Stock over a period of up to four years. Funding has, and is expected to continue to, come from operating cash flow in potential combination with short or medium-term borrowings. The timing and the amount of shares purchased will be dictated by working capital needs and stock market conditions. As of November 30, 1997, the Company had purchased a total of 21.4 million shares for approximately \$341.9 million in the open market in conjunction with the \$450 million share repurchase program previously approved in July 1993. During the second quarter, the Company purchased a total of 801,400 shares, for approximately \$40.2 million.

During the quarter the Company announced a 20% increase in the quarterly cash dividend to \$.12 per share from the previous \$.10 per share.

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, 1997.

Item 6. Exhibits and Reports on Form 8-K:**(a) EXHIBITS:**

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

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

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

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

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

4.4 Officers' Certificate establishing the terms of the Company's 6-3/8% Notes Due December 1, 2003 (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 10, 1996).

4.5 Form of 6-3/8% Note due December 1, 2003 (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K dated December 10, 1996).

4.6 Form of Officers' Certificate establishing the terms of the Company's Fixed Rate Medium-Term Note and Floating Rate Medium-Term Note (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 23, 1997).

4.7 Form of Fixed Rate Medium-Term Note (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K dated April 23, 1997).

4.8 Form of Floating Rate Medium-Term Note (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K dated April 23, 1997).

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 the Company's Quarterly Report on Form 10-Q for the fiscal 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 22, 1997).*

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

10.7 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).*

10.8 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).*

12.1 Computation of Ratio of Earnings to 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 second quarter of fiscal 1998: 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 E. Harold

Robert E. Harold
Chief Financial Officer

DATED: January 14, 1998

Computation of Ratio of Earnings to Fixed Charges

	Six Months Ended November 30,	
	1997	1996
	(dollars in thousands)	
Net income	\$394,179	\$402,935
Income taxes	246,700	254,900
	640,879	657,835
Add fixed charges		
Interest expense (A)	34,874	24,430
Interest component of leases (B)	21,923	11,866
	56,797	36,296
Earnings before income taxes and fixed charges (C)	\$696,857 =====	\$692,595 =====
Ratio of earnings to total fixed charges	12.27 =====	19.08 =====

(A) Interest expense includes interest 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 NOVEMBER 30, 1997 FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	MAY 31 1998
PERIOD END	NOV 30 1997
CASH	139,686
SECURITIES	0
RECEIVABLES	1,759,450
ALLOWANCES	58,485
INVENTORY	1,448,550
CURRENT ASSETS	3,675,999
PP&E	1,632,029
DEPRECIATION	580,823
TOTAL ASSETS	5,383,140
CURRENT LIABILITIES	1,495,517
BONDS	386,235
COMMON	2,859
PREFERRED MANDATORY	0
PREFERRED	300
OTHER SE	3,453,378
TOTAL LIABILITY AND EQUITY	5,383,140
SALES	5,021,371
TOTAL REVENUES	5,021,371
CGS	3,074,987
TOTAL COSTS	3,074,987
OTHER EXPENSES	1,256,177
LOSS PROVISION	15,273
INTEREST EXPENSE	34,055
INCOME PRETAX	640,879
INCOME TAX	246,700
INCOME CONTINUING	394,179
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	394,179
EPS PRIMARY	1.33
EPS DILUTED	1.33

End of Filing

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