

# NIKE INC

## FORM 10-Q (Quarterly Report)

Filed 10/15/98 for the Period Ending 08/31/98

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

# NIKE INC

## FORM 10-Q (Quarterly Report)

Filed 10/15/1998 For Period Ending 8/31/1998

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 August 31, 1998 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 August 31, 1998 were:

Class A	101,387,108
Class B	184,930,119
	-----
	286,317,227
	=====

### PART 1 - FINANCIAL INFORMATION

#### Item 1. Financial Statements

NIKE, Inc.

#### CONDENSED CONSOLIDATED BALANCE SHEET

Aug. 31,	May 31,
1998	1998
-----	
(in millions)	

ASSETS

Current assets:

Cash and equivalents	\$ 167.8	\$ 108.6
Accounts receivable	1,755.0	1,674.4
Inventories (Note 4)	1,160.1	1,396.6
Deferred income taxes	158.2	156.8
Prepaid expenses	168.0	196.2

Total current assets	3,409.1	3,532.6
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Property, plant and equipment	1,879.3	1,819.6
Less accumulated depreciation	702.1	666.5

	1,177.2	1,153.1
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Identifiable intangible assets and goodwill	436.5	435.8
Deferred income taxes and other assets	281.8	275.9

	\$5,304.6	\$5,397.4
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$ 1.3	\$ 1.6
Notes payable	348.3	480.2
Accounts payable	432.5	584.6
Accrued liabilities	638.5	608.5
Income taxes payable	112.3	28.9

Total current liabilities	1,532.9	1,703.8
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Long-term debt	375.7	379.4
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Deferred income taxes and other liabilities	46.6	52.3
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Commitments and contingencies (Note 6)	--	--
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Redeemable Preferred Stock	0.3	0.3
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Shareholders' equity:

Common Stock at stated value (Note 3):		
Class A convertible-101.4 and		
101.5 shares outstanding	0.2	0.2
Class B-184.9 and 185.5 shares		
outstanding	2.7	2.7
Capital in excess of stated value	267.7	262.5
Accumulated other comprehensive income	(52.3)	(47.2)
Retained earnings	3,130.8	3,043.4

	3,349.1	3,261.6
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	\$5,304.6	\$5,397.4
	=====	=====

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

**NIKE, Inc.**

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Three Months Ended

August 31,

1998 1997

(in millions, except per share data)

Revenues	\$2,504.8	\$2,766.1
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Costs and expenses:

Cost of sales	1,562.6	1,665.5
Selling and administrative	652.6	658.9
Interest	14.2	16.9

Other expense (income)	4.6	13.2
	<u>2,234.0</u>	<u>2,354.5</u>
Income before income taxes	270.8	411.6
Income taxes	107.0	158.5
	<u>Net income</u>	<u>\$ 253.1</u>
	=====	=====
Basic earnings per common share(Note 3)	\$ 0.57	\$ 0.87
	=====	=====
Diluted earnings per common share (Note 3)	\$ 0.56	\$ 0.85
	=====	=====
Dividends declared per common share	\$ 0.12	\$ 0.10
	=====	=====

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

**NIKE, Inc.**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Three Months Ended August 31,	
	1998	1997
	<u>          </u>	<u>          </u>
	(in millions)	
Cash provided (used) by operations:		
Net income	\$163.8	\$253.1
Income charges (credits) not affecting cash:		
Depreciation	57.2	43.8
Deferred income taxes	(1.7)	3.9
Amortization and other	(0.6)	4.6
Changes in other working capital components	150.2	(168.0)
	<u>368.9</u>	<u>137.4</u>
Cash (used) provided by investing activities:		
Additions to property, plant and equipment	(85.6)	(108.7)
Disposals of property, plant and equipment	3.6	3.9
Increase in other assets	(9.6)	(40.2)
Decrease in other liabilities	(6.4)	(1.0)
	<u>(98.0)</u>	<u>(146.0)</u>
Cash provided (used) by financing activities:		
Additions to long-term debt	-	101.9
Reductions in long-term debt including current portion	(0.4)	(0.4)
Decrease in notes payable	(131.9)	(124.5)
Proceeds from exercise of options	6.4	14.2
Repurchase of stock	(43.3)	-
Dividends - common and preferred	(34.4)	(28.9)
	<u>(203.6)</u>	<u>(37.7)</u>
Effect of exchange rate changes on cash	(8.1)	4.0
Net increase (decrease) in cash and equivalents	59.2	(42.3)
Cash and equivalents, May 31, 1998 and 1997	<u>108.6</u>	<u>445.4</u>

Cash and equivalents, August 31, 1998  
and 1997

\$167.8

\$403.1

=====

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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) months ended August 31, 1998 are not necessarily indicative of results to be expected for the entire year.

**Year 2000 costs:**

Costs associated with the Company's efforts around Year 2000 issues are expensed as incurred, unless they relate to the purchase of hardware and software, and software development, in which case they are capitalized. Capitalized software and hardware costs are depreciated from three to five years.

**NOTE 2 - Accounting changes:**

In the first quarter of fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income is generally defined as all changes in shareholders' equity except those resulting from investments by and distributions to shareholders. Comprehensive income, net of taxes, is as follows:

	Three months ended August 31,	
	1998	1997
	-----	-----
	(in millions)	
Net Income	\$163.8	\$253.1
Foreign Currency Translation Adjustment	(52.3)	(39.9)
	-----	-----
Total Comprehensive Income	\$111.5	\$213.2
	=====	=====

**NOTE 3 - Net income per common share:**

SFAS 128, "Earnings per Share," replaces primary and fully diluted earnings per share with basic and diluted earnings per share. Under the new requirements, the dilutive effect of stock options is excluded from the calculation of basic earnings per share. Diluted earnings per share is calculated similarly to fully diluted earnings per share as required under APB 15. SFAS 128 became effective for the Company's fiscal 1998 financial statements. All prior period earnings per share data presented have been restated to conform to the provisions of this statement. The following represents a reconciliation from basic earnings per share to diluted earnings per share:

	Three Months Ended August 31,	
	1998	1997
	-----	-----
	(in millions, except per share data)	
Determination of shares:		
Average common shares outstanding	286.7	289.9

Assumed conversion of stock options	5.3	7.6
	-----	-----
Diluted average common shares outstanding	292.0	297.5
	=====	=====
Basic earnings per common share	\$0.57	\$0.87
	=====	=====
Diluted earnings per common share	\$0.56	\$0.85
	=====	=====

#### NOTE 4 - Inventories:

Inventories by major classification are as follows:

	Aug. 31, 1998	May 31, 1998
	-----	-----
	(in millions)	
Finished goods	\$1,091.1	\$1,303.8
Work-in-progress	32.8	34.7
Raw materials	36.2	58.1
	-----	-----
	\$1,160.1	\$1,396.6
	=====	=====

#### NOTE 5 - Restructuring charge:

During the fourth quarter of fiscal 1998 the Company recorded a restructuring charge of \$129.9 million as a result of certain of the Company's actions to better align its cost structure with expected revenue growth rates. The restructuring activities (shown below in tabular format) primarily related to: 1) the elimination of job responsibilities company-wide, resulting in costs to sever employees and related asset write-downs and lease abandonments related to the affected employees; 2) the relocation of, and elimination of, certain job responsibilities of the Asia Pacific headquarters in Hong Kong, resulting in reduction in workforce, lease abandonments and other costs of downsizing the Hong Kong headquarters; 3) the downsizing of the Company's Japan distribution center, resulting in the write-down of assets no longer in use; 4) the cancellation of certain non-strategic long-term endorsement contracts, resulting in one-time termination fees; and 5) the decision to exit certain manufacturing operations of the Bauer subsidiary, resulting in the reduction in manufacturing related jobs, the write-down of assets no longer in use and the estimated loss on divestiture of certain manufacturing plants.

No increases to the original estimated restructuring charge were made during the first quarter of fiscal 1999. All activity during the quarter related to cash payments to settle severance agreements, lease commitments, endorsement contracts and other various items.

As of August 31, 1998, there were a total of 1,208 employees terminated, with 1,135 having left the Company as of that date.

Detail of the restructuring charge is as follows:

(in millions) DESCRIPTION	CASH/NON- CASH	RESTRUCTURING CHARGE	ACTIVITY	RESERVE BALANCE AT 5/31/98	ACTIVITY	RESERVE BALANCE AT 8/31/98
<hr/>						
ELIMINATION OF JOB RESPONSIBILITIES COMPANY- WIDE		\$ (49.8)	\$18.8	\$ (31.0)	\$17.9	\$ (13.1)
Severance packages						
Severance packages	cash	(29.1)	9.0	(20.1)	13.9	(6.2)
Lease cancellations & commitments	cash	(10.8)	0.2	(10.6)	3.9	(6.7)
Write-down of assets	non-cash	(9.6)	9.6	-	-	-
Other	cash	(0.3)	-	(0.3)	0.1	(0.2)
<hr/>						
DOWNSIZING THE ASIA PACIFIC HEADQUARTERS IN HONG KONG		\$ (13.1)	5.4	\$ (7.7)	\$2.0	\$ (5.7)
Severance packages	cash	(4.6)	2.3	(2.3)	0.9	(1.4)
Lease cancellations & commitments	cash	(5.5)	0.1	(5.4)	1.1	(4.3)
Write-down of assets	non-cash	(3.0)	3.0	-	-	-
<hr/>						

DOWNSIZING THE JAPAN DISTRIBUTION CENTER		\$ (31.6)	\$25.4	\$ (6.2)	\$0.9	\$ (5.3)
Write-off of assets	non-cash	(12.5)	12.5	-	-	-
Software development costs	cash/non cash	(19.1)	12.9	(6.2)	0.9	(5.3)
CANCELLATION OF ENDORSEMENT CONTRACTS		\$ (5.6)	\$0.6	\$ (5.0)	\$3.2	\$ (1.8)
EXITING CERTAIN MANUFACTURING OPERATIONS AT BAUER		\$ (22.7)	\$19.9	\$ (2.8)	\$0.2	\$ (2.6)
Write-down of assets	non-cash	(14.7)	14.7	-	-	-
Divestiture of manufacturing facilities	non-cash	(5.2)	5.2	-	-	-
Lease cancellations & commitments	cash	(1.6)	-	(1.6)	0.1	(1.5)
Severance packages	cash	(1.2)	-	(1.2)	0.1	(1.1)
OTHER		\$ (7.1)	2.4	\$ (4.7)	\$0.3	\$ (4.4)
Cash	cash	(0.6)	-	(0.6)	0.1	(0.5)
Non-cash	non-cash	(6.5)	2.4	(4.1)	0.2	(3.9)
Effect of foreign currency translation		-	\$1.8	\$1.8	\$ (0.3)	\$1.5
TOTAL		\$ (129.9)	\$74.3	\$ (55.6)	\$24.2	\$ (31.4)

#### NOTE 6 - 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.

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

##### Operating Results

Net income for the first quarter of fiscal year 1999 was \$163.8 million, a 35% decrease compared to the \$253.1 million in the prior year's first quarter. Results for the first quarter were driven by a 9% decrease in consolidated revenues, a gross margin percentage drop of 220 basis points, and selling and administrative expenses, that while decreased in terms of absolute dollars, increased as a percentage of revenue. Operations continue to be affected by the economic crisis in the Asia Pacific region. In order to better align its overall cost structure and organization with planned revenue levels, the Company plans on making certain cost cutting measures, including the elimination of an additional 300 positions throughout its Asia Pacific region in fiscal 1999.

Consolidated revenues for the quarter decreased 9%, or \$261.3 million. U.S. brand revenues declined \$152.5 million, or 10%, with a 13% decrease in footwear and a 5% decrease in apparel revenues. The \$138.6 million decline in U.S. footwear revenues was a result of an 11% decrease in pairs sold and a 3% reduction in average selling price. Most core footwear categories showed decreases for the quarter, however, Brand Jordan was up 104%, and outdoor was up 35%. U.S. apparel revenues decreased \$20.0 million for the quarter. While the core category of basketball was down 20%, men's training and women's fitness were up 21% and 61%, respectively.

Total revenues in Europe were up 12%, or \$71.1 million. Had the dollar remained constant, revenues would have increased 9%. Apparel revenues increased 42% over last year, where footwear revenues were down 8%. France, Italy, Spain and Germany all had double digit increases in the quarter.

Revenues in the Asia Pacific region decreased 46%, or \$168.4 million. Had the dollar remained constant, revenues would have decreased 35%. Footwear and apparel revenues were down 58% and 20%, respectively. Revenues in Japan declined 53% (45% on a constant dollar basis).

The Americas region, which includes Canada, Mexico and South America, decreased 15% compared to last year. The strengthening of the dollar, primarily in Canada, had a significant effect on the quarter, as revenues would have decreased 10% on a constant dollar basis.

Other Brands, which includes Bauer Inc., Cole Haan, Sports Specialties, and NIKE IHM (which includes what was formally Tetra Plastics), increased 12% to \$132.1 million. The increase was primarily due to Bauer's increase in ice hockey sales.

The breakdown of revenues follows:

	August 31,		%
	1998	1997	
U.S.A. REGION			
FOOTWEAR	\$917.4	\$1,056.0	-13%
APPAREL	405.2	425.2	-5%
EQUIPMENT AND OTHER	25.2	19.1	32%
<hr/>			
TOTAL U.S.A.	1,347.8	1,500.3	-10%
EUROPE REGION			
FOOTWEAR	354.2	384.0	-8%
APPAREL	310.8	218.3	42%
EQUIPMENT AND OTHER	15.9	7.5	112%
<hr/>			
TOTAL EUROPE	680.9	609.8	12%
ASIA PACIFIC REGION			
FOOTWEAR	111.1	264.1	-58%
APPAREL	82.0	103.0	-20%
EQUIPMENT AND OTHER	6.0	0.4	1400%
<hr/>			
TOTAL ASIA PACIFIC	199.1	367.5	-46%
AMERICAS REGION			
FOOTWEAR	97.8	121.5	-20%
APPAREL	44.3	45.6	-3%
EQUIPMENT AND OTHER	2.8	3.3	-15%
<hr/>			
TOTAL AMERICAS	144.9	170.4	-15%
<hr/>			
TOTAL NIKE BRAND	2,372.7	2,648.0	-10%
OTHER BRANDS	132.1	118.1	12%
<hr/>			
TOTAL REVENUES	\$2,504.8	\$2,766.1	-9%
	=====	=====	===

The Company's gross margin percentage for the first quarter was 37.6%, down from 39.8% in the prior year. Margins were adversely affected by continued efforts to liquidate the Company's closeout inventories around the world, particularly in Asia and in U.S. apparel. In Europe margins were also affected by increased sales of lower priced product and the effect of the strengthening US dollar, inhibiting the Company's ability to price product competitively.

Selling and administrative expenses decreased 1% from last year's first quarter, but were up as a percentage of revenues, to 26.1% compared to 23.8%. While sports marketing expenses increased with significant expenditures surrounding the World Cup event in France, wage-related expenses were up less than 1% and advertising spending was down, more than offsetting the increase in sports marketing expenses. Selling and administrative spending reflects management's continuing efforts to control expenditures in a changing industry and general economic environment while not jeopardizing long-term growth objectives. Selling and administrative expenses for the full year are expected to be slightly higher than last year's levels as a percentage of revenue.

Interest expense decreased in the first quarter compared to last year as less short term debt was needed to finance lower levels of inventories and accounts receivable. Other expense also decreased from the prior year, mainly due to less foreign currency transaction losses, offset by decreased profit sharing expense and lower interest income.

The Company's effective tax rate for the quarter was 39.5% compared to 38.5% in the prior year. The increase in the rate was primarily due to the non-deductibility of certain foreign entity losses.

Worldwide futures and advance orders for NIKE brand athletic footwear and apparel scheduled for delivery from September 1998 through January 1999 totaled \$3.2 billion, 15% 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 orders in relation to at once orders and varying cancellation rates. Finally exchange rate fluctuations will also cause differences in the comparisons.

During the fourth quarter of fiscal 1998, the Company recorded a restructuring charge of \$129.9 million as a result of certain of the Company's actions to better align its overall cost structure and organization with planned revenue levels. The restructuring activities (shown below in tabular format) primarily related to: 1) the elimination of job responsibilities company-wide, resulting in costs to sever employees and related asset write-downs and lease abandonments related to the affected employees; 2) the relocation of, and elimination of, certain job responsibilities of the Asia Pacific headquarters in Hong Kong, resulting in reduction in workforce, lease abandonments and other costs of downsizing the Hong Kong headquarters; 3) the downsizing of the Company's Japan distribution center, resulting in the write-down of assets no longer in use; 4) the cancellation of certain non-strategic long-term endorsement contracts, resulting in one-time termination fees; and 5) the decision to exit certain manufacturing operations of the Bauer subsidiary, resulting in the reduction in manufacturing related jobs, the write-down of assets no longer in use and the estimated loss on divestiture of certain manufacturing plants.

A total of 1,208 employees were terminated due to the above activities, 1,135 of which have left the Company as of August 31, 1998.

No increases to the original estimated restructuring charge were made during the first quarter of fiscal 1999. All activity during the quarter related to cash payments to settle severance agreements, lease commitments, endorsement contracts and other various items. Future cash outlays are anticipated to be completed by the end of this fiscal year, excluding certain lease commitments that will continue through July 2001.

Detail of the restructuring charge is as follows:

(in millions) DESCRIPTION	CASH/NON- CASH	RESTRUCTURING CHARGE	ACTIVITY	RESERVE BALANCE AT 5/31/98	ACTIVITY	RESERVE BALANCE AT 8/31/98
ELIMINATION OF JOB RESPONSIBILITIES COMPANY- WIDE		\$ (49.8)	\$18.8	\$ (31.0)	\$17.9	\$ (13.1)
Severance packages	cash	(29.1)	9.0	(20.1)	13.9	(6.2)
Lease cancellations & commitments	cash	(10.8)	0.2	(10.6)	3.9	(6.7)
Write-down of assets	non-cash	(9.6)	9.6	-	-	-
Other	cash	(0.3)	-	(0.3)	0.1	(0.2)
DOWNSIZING THE ASIA PACIFIC HEADQUARTERS IN HONG KONG		\$ (13.1)	5.4	\$ (7.7)	\$2.0	\$ (5.7)
Severance packages	cash	(4.6)	2.3	(2.3)	0.9	(1.4)
Lease cancellations & commitments	cash	(5.5)	0.1	(5.4)	1.1	(4.3)
Write-down of assets	non-cash	(3.0)	3.0	-	-	-
DOWNSIZING THE JAPAN DISTRIBUTION CENTER		\$ (31.6)	\$25.4	\$ (6.2)	\$0.9	\$ (5.3)
Write-off of assets	non-cash	(12.5)	12.5	-	-	-
Software development costs	cash/non cash	(19.1)	12.9	(6.2)	0.9	(5.3)
CANCELLATION OF ENDORSEMENT CONTRACTS	cash	\$ (5.6)	\$0.6	\$ (5.0)	\$3.2	\$ (1.8)
EXITING CERTAIN MANUFACTURING OPERATIONS AT BAUER		\$ (22.7)	\$19.9	\$ (2.8)	\$0.2	\$ (2.6)
Write-down of assets	non-cash	(14.7)	14.7	-	-	-
Divestiture of manufacturing facilities	non-cash	(5.2)	5.2	-	-	-
Lease cancellations & commitments	cash	(1.6)	-	(1.6)	0.1	(1.5)
Severance packages	cash	(1.2)	-	(1.2)	0.1	(1.1)
OTHER		\$ (7.1)	2.4	\$ (4.7)	\$0.3	\$ (4.4)
Cash	cash	(0.6)	-	(0.6)	0.1	(0.5)
Non-cash	non-cash	(6.5)	2.4	(4.1)	0.2	(3.9)
Effect of foreign currency translation		-	\$1.8	\$1.8	\$ (0.3)	\$1.5
TOTAL		\$ (129.9)	\$74.3	\$ (55.6)	\$24.2	\$ (31.4)

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In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). FAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999 (June 1, 2000 for the Company). This statement will require the Company to recognize all derivatives on the balance sheet at fair value. Changes in the fair value of derivatives will be recorded in current earnings or other comprehensive income, depending on the intended use of the derivative and the resulting designation. The ineffective portion of all hedges will be recognized in current-period earnings. Management of the Company has not yet determined the impact that the adoption of FAS 133 will have on the Company's results from operations or its financial position.

#### Year 2000 issue

The year 2000 issue is the result of computer programs using two digits rather than four to define the applicable year. Such software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations leading to disruptions in the Company's activities and operations (the "year 2000" or "Y2K" issue). If the Company or its significant suppliers or customers fail to make necessary modifications, conversions, and contingency plans on a timely basis, the year 2000 issue could have a material adverse effect on NIKE's business, operations, cash flow, and financial condition. However, the effect cannot be quantified at this time because NIKE cannot accurately estimate the magnitude, duration, or ultimate impact of noncompliance by suppliers, customers, and third parties that have no direct relationship to NIKE. The Company believes that its competitors face a similar risk. Although not quantifiable, the disclosure below is intended to summarize NIKE's actions to minimize that risk.

In May 1997, the Company established a corporate-wide project team to identify non-compliant software and complete the corrections or plans required to mitigate the year 2000 issue. NIKE has identified three categories of software and systems that require attention:

- (1) information technology ("IT") systems, such as mainframes, PCs, networks, and production control system,
- (2) non-IT systems, such as equipment, machinery, climate control, and security systems, which may contain microcontrollers with embedded technology, and
- (3) partner (supplier and customer) IT and non-IT systems.

The Company intends to fix or replace non-compliant IT and non-IT software and systems through the following project phases:

- (1) inventory systems,
- (2) assess risks and impact,
- (3) prioritize projects,
- (4) fix, replace, or develop contingency plans for non-compliant systems,
- (5) test and on-going quality control, and
- (6) audit results.

Currently, NIKE's remediation projects are at different phases of completion. Remediation and testing activities are underway on all of the Company's core business applications. NIKE engages the services of independent consultants to analyze and develop testing standards, quality assurance, and contingency plans. NIKE's internal auditing department audits the process and remediation testing, and NIKE's independent auditors, PricewaterhouseCoopers LLP, will, in turn, audit those results.

NIKE's assessments have identified 121 major internal I.T. remediation projects worldwide. Forty-three of them have been completed (including testing). NIKE has performed approximately 50 percent of the work believed to be required on the remaining projects. The Company's current target is to resolve compliance issues in critical business information systems by December 31, 1998. This target date has not changed since NIKE's previous statement on the year 2000 issue in its 1998 Form 10-K.

The Company is also assessing the compliance of its major customers and suppliers. NIKE has relationships with certain significant suppliers and customers in most of the locations in which it operates. The level of preparedness of significant suppliers and customers can vary greatly from country to country. These relationships are material to many local operations and, in the aggregate, are material to the Company. NIKE relies on suppliers to timely deliver a broad range of goods and services worldwide, including raw materials, footwear, apparel, accessories, equipment, advertising, transportation services, banking services, telecommunications and utilities. Moreover, NIKE's suppliers rely on countless other suppliers, over which NIKE may have little or no influence regarding year 2000 compliance. NIKE believes that suppliers and customers presents the area of greatest risk to the Company in part because of the Company's limited ability to influence actions of third parties, and in part because of the Company's inability to estimate the level and impact of noncompliance of third parties throughout the

extended supply chain.

NIKE is sending surveys to and conducting formal communications with its significant suppliers and customers to determine the extent to which it may be affected by those third parties' Y2K preparedness plans. Some of NIKE's significant suppliers and customers have not responded to inquiries from NIKE, have refused to respond for liability reasons, or have not responded with sufficient detail for NIKE to determine (a) whether the supplier or customer is or timely will be Y2K compliant, or (b) if any noncompliance will have a material adverse effect on NIKE's business or financial condition. In the absence of adequate responses and disclosures, NIKE is attempting to make independent assessments of significant vendors and customers. However, a compliance failure by a major supplier or customer, or one of their suppliers or customers, could have a material adverse effect on NIKE's business or financial condition. The size of that effect cannot be quantified at this time because of variables such as the type and importance of the non-responding suppliers and customers, the unknown level and duration of noncompliance of suppliers and customers (and their suppliers and customers), the possible effect on NIKE's operations, and NIKE's ability to respond. Thus, there can be no assurance that there will not be a material adverse effect on the Company if third party governmental or business entities do not convert or replace their systems in a timely manner and in a way that is compatible with the Company's systems.

As a result, in some cases NIKE will develop contingency plans that assume some estimated level of noncompliance by, or business disruption to, suppliers and customers. The Company intends to have contingency plans developed by mid-1999 for significant suppliers and customers determined to be at high risk of noncompliance or business disruption. The contingency plans will be developed on a case-by-case basis, and may include booking orders and producing products before anticipated business disruptions, manual intervention, or finding alternative suppliers. Even so, judgments regarding contingency plans - such as how to develop them and to what extent - are themselves subject to many variables and uncertainties. There can be no assurance that NIKE will correctly anticipate the level, impact or duration of noncompliance by suppliers and customers that provide inadequate information, or that its contingency plans will be sufficient to mitigate the impact. Thus, some material adverse effect to NIKE may result from one or more third parties regardless of defensive contingency plans.

Costs related to the year 2000 issue are funded through operating cash flows. Through the first quarter of fiscal 1999, the Company expended approximately \$23 million in remediation efforts, including the cost of new software and modifying the applicable code of existing software. Approximately \$6.4 million of these expenditures was for new hardware and software, and has been capitalized. The remainder has been expensed as incurred. The Company estimates total costs related to the year 2000 issue will be in the range of \$45 to \$50 million, approximately \$10 million of which will be capitalized. The Company presently believes that the total cost of achieving year 2000 compliant systems is not expected to be material to NIKE's financial condition, liquidity, or results of operations.

Estimates of time, cost, and risk estimates are based on currently available information. Developments that could affect estimates include, but are not limited to, the availability and cost of trained personnel; the ability to locate and correct all relevant computer code and systems; cooperation and remediation success of the Company's suppliers and customers (and their suppliers and customers); and the ability to correctly anticipate risks and implement suitable contingency plans in the event of system failures at NIKE or its suppliers and customers (and their suppliers and customers).

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's financial position remained strong at August 31, 1998. Compared to May 31, 1998, total assets decreased 2%, or \$92.8 million, to \$5.3 billion. Shareholder's equity increased \$87.5 million, or 2.7%, remaining at \$3.3 billion. Working capital increased \$47.4 million, to \$1.9 billion, and the Company's current ratio was 2.22:1 at August 31, 1998 compared to 2.07:1 at May 31, 1998.

Despite lower net income compared with the first quarter of fiscal 1998, cash provided by operations increased by \$231.5 million to \$368.9 million for the quarter ended August 31, 1998. The most significant affect on cash provided by operations was the change in the Company's working capital. At August 31, 1998, cash provided by operations was positively affected by changes in working capital, primarily the liquidation of inventory since May 31, 1998. The decreased inventory levels reflect the Company's continued effort to reduce overall quantities, particularly closeout product. Footwear closeout levels fell in nearly all regions, which more than offset the slight buildup of closeout apparel inventories in the U.S. and Europe.

Additions to property, plant and equipment for the first quarter of fiscal 1999 were \$85.6 million, split evenly between the U.S. and non-U.S. operations, compared to \$108.7 million for the first three months of fiscal 1998. Additions in the U.S. were comprised primarily of U.S. headquarters expansion, customer service distribution facilities, ongoing investment in systems infrastructure, and retail expansion. Outside the U.S., the majority of the increase related to expansion of the customer service distribution center in Europe and retail expansion in all regions.

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 \$0.3 million outstanding at August 31, 1998.

Dividends per share of common stock for the first quarter of fiscal 1999 was \$.12 per share compared to \$.10 per share for the first quarter of fiscal 1998.

As of August 31, 1998, the Company has purchased a total of 2.5 million shares of NIKE's Class B common stock for \$105.9 million in the open market since the \$1 billion share repurchase program was approved in December 1997. During the first quarter, the Company purchased a

total of 1.3 million shares for \$52.0 million. Funding has, and is expected to continue to, come from operating cash flow in conjunction with short-term borrowings. The timing and the amount of shares purchased will be dictated by working capital needs and stock market conditions.

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

Certain written and oral statements 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 ("the Act"). 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 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 (including the current Asian economic problems); 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; the size, timing and mix of purchases of NIKE's products; 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; 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; disruptions due to Year 2000 noncompliance by NIKE, its suppliers or customers (or their suppliers or customers); 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, 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 impact NIKE's business and financial performance. Moreover, NIKE operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on NIKE's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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

## Part II - Other Information

### Item 1. Legal Proceedings:

There have been no material changes from the information previously reported under Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1998.

### Item 4. Submission of Matters to a Vote of Security Holders

The Company's annual meeting of shareholders was held on September 23, 1998. The shareholders elected for the ensuing year all of management's nominees for the Board of Directors and ratified the appointment of Price WaterhouseCoopers LLP as independent accountants for fiscal 1999. Shareholder proposal 3 regarding independence standard and shareholder proposal 4 regarding executive compensation were defeated.

The voting results are as follows:

Election of Directors

Votes Cast

Directors  
Elected by holders of

For

Withheld

Broker Non-Votes

Class A Common Stock:

Ralph D. DeNunzio	95,587,426	-0-	-0-
Richard K. Donahue	95,587,426	-0-	-0-
Douglas G. Houser	95,587,426	-0-	-0-
John E. Jaqua	95,587,426	-0-	-0-
Philip H. Knight	95,587,426	-0-	-0-
Kenichi Ohmae	95,587,426	-0-	-0-
Charles W. Robinson	95,587,426	-0-	-0-
A. Michael Spence	95,587,426	-0-	-0-
John R. Thompson, Jr.	95,587,426	-0-	-0-

Elected by holders of  
Class B Common Stock:

William J. Bowerman	157,194,260	3,705,820	-0-
Thomas E. Clarke	157,599,867	3,300,213	-0-
Jill K. Conway	157,791,013	3,109,067	-0-
Delbert J. Hayes	157,588,017	3,312,063	-0-

	For	Against	Abstain	Broker Non-Votes
Proposal 2 - Ratify the appointment				

of PricewaterhouseCoopers  
as independent accountants:

Class A and Class B Common Stock Voting Together	255,530,472	632,688	363,177	-0-
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Proposal 3 -  
Shareholder proposal  
independence standard:

Class A and Class B Common Stock Voting Together	33,355,696	182,910,111	1,605,329	38,655,201
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Proposal 4 -  
Shareholder proposal  
executive compensation

Class A and Class B Common Stock Voting Together	5,653,217	208,378,770	3,839,149	38,655,201
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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).

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. 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).\*

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

10.8 Collateral Assignment Split-Dollar Agreement between NIKE, Inc. and Philip H. Knight dated March 10, 1994 (incorporated by reference from Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1994).\*

12.1 Computation of Ratio of Earnings to Charges.

27 Financial Data Schedule.

\* 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

*BY: /s/Robert E. Harold*

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*Robert E. Harold*  
*Interim Chief Financial Officer*

*DATED: October 15, 1998*

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

	Three Months Ended August 31,	
	1998	1997
	-----	-----
	(in millions)	
Net income	\$163.8	\$253.1
Income taxes	107.0	158.5
	-----	-----
Income before income taxes	270.8	411.6
	-----	-----
Add fixed charges		
Interest expense (A)	15.6	17.2
Interest component of leases (B)	10.4	10.1
	-----	-----
Total fixed charges	26.0	27.3
	-----	-----
Earnings before income taxes and fixed charges (C)	\$295.4	\$438.6
	=====	=====
Ratio of earnings to total fixed charges	11.36	16.07
	=====	=====

(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 AUGUST 31, 1998 FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	MAY 31 1999
PERIOD END	AUG 31 1998
CASH	168
SECURITIES	0
RECEIVABLES	1,755
ALLOWANCES	72
INVENTORY	1,160
CURRENT ASSETS	3,409
PP&E	1,879
DEPRECIATION	702
TOTAL ASSETS	5,305
CURRENT LIABILITIES	1,533
BONDS	376
COMMON	3
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	3,346
TOTAL LIABILITY AND EQUITY	5,305
SALES	2,505
TOTAL REVENUES	2,505
CGS	1,563
TOTAL COSTS	1,563
OTHER EXPENSES	650
LOSS PROVISION	7
INTEREST EXPENSE	14
INCOME PRETAX	271
INCOME TAX	107
INCOME CONTINUING	164
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	164
EPS PRIMARY	.57
EPS DILUTED	.56

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