

NIKE INC

FORM 10-Q (Quarterly Report)

Filed 04/14/03 for the Period Ending 02/28/03

| | |
|-------------|---|
| 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 |

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended February 28, 2003
Commission file number - 1-10635

NIKE, Inc.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act). Yes No

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

Yes No

Common Stock shares outstanding as of February 28, 2003 were:

| | |
|---------|-------------|
| Class A | 97,914,905 |
| Class B | 166,070,067 |
| | <hr/> |
| | 263,984,972 |
| | ===== |

PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | February 28, 2003 | May 31, 2002 |
|---|----------------------|-----------------|
| | (in millions) | |
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | \$ 443.2 | \$ 575.5 |
| Accounts receivable, net | 1,949.4 | 1,807.1 |
| Inventories (Note 5) | 1,519.2 | 1,373.8 |
| Deferred income taxes | 190.8 | 140.8 |
| Prepaid expenses and other current assets | 244.4 | 260.5 |
| | <hr/> | <hr/> |
| Total current assets | 4,347.0 | 4,157.7 |
| Property, plant and equipment | 2,906.2 | 2,741.7 |
| Less accumulated depreciation | 1,291.1 | 1,127.2 |
| | <hr/> | <hr/> |
| | 1,615.1 | 1,614.5 |
| Identifiable intangible assets (Note 2) | 118.3 | 206.0 |
| Goodwill (Note 2) | 65.6 | 232.7 |
| Deferred income taxes and other assets | 255.0 | 232.1 |
| | <hr/> | <hr/> |
| | \$6,401.0 | \$6,443.0 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 205.6 | \$ 55.3 |
| Notes payable | 216.6 | 425.2 |
| Accounts payable | 467.5 | 504.4 |
| Accrued liabilities | 910.2 | 768.3 |
| Income taxes payable | 55.3 | 83.0 |
| | <hr/> | <hr/> |
| Total current liabilities | 1,855.2 | 1,836.2 |
| Long-term debt | 542.8 | 625.9 |
| Deferred income taxes and other liabilities | 167.5 | 141.6 |
| Commitments and contingencies (Note 7) | -- | -- |
| Redeemable preferred stock | 0.3 | 0.3 |
| Shareholders' equity: | | |
| Common stock at stated value: | | |
| Class A convertible-97.9 and 98.1 shares outstanding | 0.2 | 0.2 |
| Class B-166.1 and 168.0 shares outstanding | 2.6 | 2.6 |
| Capital in excess of stated value | 553.1 | 538.7 |
| Unearned stock compensation | (1.4) | (5.1) |
| Accumulated other comprehensive income | (224.4) | (192.4) |
| Retained earnings | 3,505.1 | 3,495.0 |
| | <hr/> | <hr/> |
| Total shareholders' equity | 3,835.2 | 3,839.0 |
| | <hr/> | <hr/> |
| | \$6,401.0 | \$6,443.0 |
| | ===== | ===== |

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended

Nine Months Ended

| | February 28, | | February 28, | |
|---|--------------------------------------|-----------|--------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions, except per share data) | | | |
| Revenues | \$2,400.9 | \$2,260.3 | \$7,711.9 | \$7,210.8 |
| Costs and expenses: | | | | |
| Cost of sales | 1,424.9 | 1,376.8 | 4,568.7 | 4,403.0 |
| Selling and administrative | 753.9 | 682.5 | 2,311.6 | 2,056.4 |
| Interest | 10.8 | 12.1 | 32.2 | 37.4 |
| Other expense, net | 23.9 | (0.1) | 48.3 | 11.8 |
| | 2,213.5 | 2,071.3 | 6,960.8 | 6,508.6 |
| Income before income taxes and cumulative effect of accounting change | 187.4 | 189.0 | 751.1 | 702.2 |
| Income taxes | 62.7 | 62.7 | 257.2 | 242.3 |
| Income before cumulative effect of accounting change | 124.7 | 126.3 | 493.9 | 459.9 |
| Cumulative effect of accounting change, net of income taxes | -- | -- | 266.1 | 5.0 |
| Net income | \$ 124.7 | \$ 126.3 | \$ 227.8 | \$ 454.9 |
| Basic earnings per common share (Note 4): | | | | |
| Before accounting change | \$ 0.47 | \$ 0.47 | \$ 1.87 | \$ 1.71 |
| Cumulative effect of accounting change | -- | -- | (1.01) | (0.02) |
| | \$ 0.47 | \$ 0.47 | \$ 0.86 | \$ 1.69 |
| Diluted earnings per common share (Note 4): | | | | |
| Before accounting change | \$ 0.47 | \$ 0.46 | \$ 1.84 | \$ 1.69 |
| Cumulative effect of accounting change | -- | -- | (0.99) | (0.02) |
| | \$ 0.47 | \$ 0.46 | \$ 0.85 | \$ 1.67 |
| Dividends declared per common share | \$ 0.14 | \$ 0.12 | \$ 0.40 | \$ 0.36 |

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended February 28, | |
|--|-----------------------------------|----------|
| | 2003 | 2002 |
| | (in millions) | |
| Cash provided (used) by operations: | | |
| Net income | \$ 227.8 | \$ 454.9 |
| Income charges (credits) not affecting cash: | | |
| Cumulative effect of accounting change | 266.1 | 5.0 |
| Depreciation | 176.5 | 164.0 |
| Deferred income taxes | (1.0) | (3.9) |
| Amortization and other | 9.4 | 26.2 |

| | | |
|---|----------|----------|
| Income tax benefit from exercise of stock options | 2.6 | 11.3 |
| Net increase in other working capital components | (252.6) | (153.4) |
| | <hr/> | <hr/> |
| Cash provided by operations | 428.8 | 504.1 |
| | <hr/> | <hr/> |
| Cash provided (used) by investing activities: | | |
| Additions to property, plant and equipment | (138.6) | (173.2) |
| Disposals of property, plant and equipment | 9.6 | 11.8 |
| Increase in other assets | (40.3) | (37.3) |
| Increase (decrease) in other liabilities | 1.1 | (0.3) |
| | <hr/> | <hr/> |
| Cash used by investing activities | (168.2) | (199.0) |
| | <hr/> | <hr/> |
| Cash provided (used) by financing activities: | | |
| Proceeds from long-term debt issuance | 90.2 | 328.0 |
| Reductions in long-term debt including current portion | (54.4) | (78.9) |
| Decrease in notes payable | (208.6) | (377.5) |
| Proceeds from exercise of stock options and other stock issuances | 15.4 | 32.5 |
| Repurchase of stock | (125.7) | (56.8) |
| Dividends on common stock | (100.8) | (96.6) |
| | <hr/> | <hr/> |
| Cash used by financing activities | (383.9) | (249.3) |
| | <hr/> | <hr/> |
| Effect of exchange rate changes on cash | (9.0) | (10.2) |
| Net (decrease) increase in cash and equivalents | (132.3) | 45.6 |
| Cash and equivalents, May 31, 2002 and 2001 | 575.5 | 304.0 |
| | <hr/> | <hr/> |
| Cash and equivalents, February 28, 2003 and 2002 | \$ 443.2 | \$ 349.6 |
| | ===== | ===== |

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

NIKE, Inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies:

Basis of presentation

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim period. The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the nine (9) months ended February 28, 2003 are not necessarily indicative of results to be expected for the entire year.

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

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). This statement requires that a liability for an asset retirement obligation be recognized at fair value in the period the obligation is incurred and the associated retirement costs be capitalized as part of the carrying amount of the tangible long-lived asset. All provisions of this statement will be effective for the Company on June 1, 2003. It is not expected that the adoption of FAS 143 will have a material impact on the Company's consolidated financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (FAS 121), and amends Accounting Principles Board Statement No. 30, "Reporting the Effects of Disposal of a Segment of a Business,

and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30). FAS 144 requires that long-lived assets, such as property, plant, and equipment, that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. FAS 144 retains the fundamental provisions of FAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. This statement also retains APB 30's requirement that companies report discontinued operations separately from continuing operations. All provisions of FAS 144 were effective for the Company on June 1, 2002. The adoption of FAS 144 did not have an impact on the Company's consolidated financial position or results of operations, and we do not expect any impact in the foreseeable future.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). This statement supercedes Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability is recognized at the date an entity commits to an exit plan. FAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of FAS 146 are effective for any exit and disposal activities initiated after December 31, 2002. We have not entered into any significant exit or disposal activities since the effective date of this rule. As such, FAS 146 has not had any impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for the current quarter ended February 28, 2003.

In connection with various contracts and agreements, the Company provides routine indemnifications relating to the enforceability of intellectual property, coverage for legal issues that arise, and other items that fall under the scope of FIN 45. Currently, the Company has several such agreements in place. However, based on the Company's historical experience and estimated probability of future loss, the Company has determined that the fair value of such indemnifications is not material. Hence, the adoption of FIN 45 has not had an impact on the Company's consolidated financial position or results of operations, and no impact is expected in the foreseeable future.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock- Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" (FAS 148). This statement amends SFAS No. 123 "Accounting for Stock Based Compensation" (FAS 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. FAS 148 also amends the disclosure requirements of FAS 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The disclosure provisions will be effective for the Company beginning with the Company's year ended May 31, 2003 10-K filing. The annual impact of a change to the fair value model prescribed by FAS 123 has been disclosed in the Company's previous annual 10-K filings. At this time, the Company plans to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", rather than change to the FAS 123 fair value method.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", addresses consolidation of variable interest entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. The provisions of FIN 46 are effective immediately for those variable interest entities created after January 31, 2003. The provisions are effective for the first period beginning after June 15, 2003 for those variable interests held prior to February 1, 2003. The Company does not currently have any variable interest entities as defined in FIN 46. Accordingly, the Company does not expect the provisions of FIN 46 to affect the Company's consolidated financial position or results of operations.

NOTE 2 - Identifiable Intangible Assets and Goodwill:

Adoption of FAS 142

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

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

Included in the Company's \$266.1 million impairment charge was a \$178.5 million charge related to the impairment of the goodwill associated with the Bauer NIKE Hockey ("Bauer") and Cole Haan reporting units. These reporting units are reflected in the Company's "Other" operating

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

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

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of February 28, 2003 and May 31, 2002:

| | February 28, 2003 | | May 31, 2002 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| (in millions) | | | | |
| Intangible assets subject to amortization: | | | | |
| Patents | \$ 24.5 | \$ (9.9) | \$ 23.1 | \$ (8.8) |
| Trademarks | 12.7 | (10.3) | 12.0 | (9.8) |
| Other | 7.5 | (0.9) | 7.5 | (0.2) |
| Total | <u>\$ 44.7</u> | <u>\$ (21.1)</u> | <u>\$ 42.6</u> | <u>\$ (18.8)</u> |
| | ===== | ===== | ===== | ===== |
| | Carrying Amount | | Carrying Amount | |
| Intangible assets not subject to amortization: | | | | |
| Goodwill | \$ 65.6 | | \$ 232.7 | |
| Trademarks | 94.7 | | 182.2 | |
| Total | <u>\$ 160.3</u> | | <u>\$ 414.9</u> | |
| | ===== | | ===== | |

Amortization expense, which is included in selling and administrative expense, was \$0.9 million and \$2.7 million for the three-month and nine-month periods ended February 28, 2003, respectively. The estimated amortization expense for intangible assets subject to amortization for each of the succeeding years ended May 31, 2003 through May 31, 2007 are as follows: 2003: \$3.5 million; 2004: \$3.0 million; 2005: \$2.8 million; 2006: \$2.7 million; 2007: \$2.1 million.

The results for the three-month and nine-month periods ended February 28, 2002 do not reflect the provisions of FAS 142. The reported net income before cumulative effect of accounting change was \$126.3 million and \$459.9 million for the three-month and nine-month periods ended February 28, 2002, respectively. Had the Company adopted FAS 142 on June 1, 2001, for the three-month period ending February 28, 2002, we would have recorded net income before cumulative effect of accounting change of \$129.6 million as a result of not recording \$2.2 million in goodwill amortization and \$1.1 million in trademark amortization. For the nine-month period ended February 28, 2002, net income before cumulative effect of accounting change would have been \$470.0 million as a result of not recording \$6.7 million in goodwill amortization and \$3.4 million in trademark amortization. Basic and diluted earnings per common share before accounting change would have increased \$0.01 and \$0.04 for the three-month and nine-month periods ended February 28, 2002, respectively.

NOTE 3 - Comprehensive Income:

Comprehensive income, net of taxes, is as follows:

| | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|---------------|---------------------------------|---------|--------------------------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| (in millions) | | | | |
| Net Income | \$124.7 | \$126.3 | \$227.8 | \$454.9 |

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Other Comprehensive Income: | | | | |
| Change in cumulative translation adjustment and other | 49.4 | (35.8) | 66.6 | (42.5) |
| Recognition in net income of previously deferred unrealized loss on securities, due to accounting change | -- | -- | -- | 3.4 |
| Changes due to cash flow hedging instruments: | | | | |
| Initial recognition of net deferred gain as of June 1, 2001 due to accounting change | -- | -- | -- | 53.4 |
| (Loss) Gain on hedge derivatives | (85.7) | 20.6 | (178.2) | 22.4 |
| Reclassification to net income of previously deferred gains and losses related to hedge derivative instruments | 31.7 | (5.1) | 79.6 | (14.9) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Other Comprehensive Income | (4.6) | (20.3) | (32.0) | 21.8 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Comprehensive Income | \$120.1 | \$106.0 | \$195.8 | \$476.7 |
| | ===== | ===== | ===== | ===== |

NOTE 4 - Earnings Per Common Share:

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase 12.0 million and 4.5 million shares of common stock were outstanding at February 28, 2003 and February 28, 2002, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of common shares and, therefore, the effect would be antidilutive.

| | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|---|--------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | (in millions, except per share data) | | | |
| Determination of shares: | | | | |
| Average common shares outstanding | 263.9 | 268.4 | 264.6 | 268.3 |
| Assumed conversion of dilutive stock options and awards | 2.8 | 5.0 | 3.1 | 3.9 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Diluted average common shares outstanding | 266.7 | 273.4 | 267.7 | 272.2 |
| | ===== | ===== | ===== | ===== |
| Basic earnings per common share: | | | | |
| Before cumulative effect of accounting change | \$ 0.47 | \$ 0.47 | \$ 1.87 | \$ 1.71 |
| Cumulative effect of accounting change | -- | -- | (1.01) | (0.02) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ 0.47 | \$ 0.47 | \$ 0.86 | \$ 1.69 |
| | ===== | ===== | ===== | ===== |
| Diluted earnings per common share: | | | | |
| Before cumulative effect of accounting change | \$ 0.47 | \$ 0.46 | \$ 1.84 | \$ 1.69 |
| Cumulative effect of accounting change | -- | -- | (0.99) | (0.02) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ 0.47 | \$ 0.46 | \$ 0.85 | \$ 1.67 |
| | ===== | ===== | ===== | ===== |

NOTE 5 - Inventories:

Inventories by major classification are as follows:

| | February 28, 2003 | May 31, 2002 |
|--|----------------------|-------------------|
| | <u> </u> | <u> </u> |

| | (in millions) | |
|------------------|-------------------|-------------------|
| Finished goods | \$1,488.3 | \$1,348.2 |
| Work-in-progress | 16.0 | 13.0 |
| Raw materials | 14.9 | 12.6 |
| | <u> </u> | <u> </u> |
| | \$1,519.2 | \$1,373.8 |
| | ===== | ===== |

NOTE 6 - Operating Segments:

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

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

Where applicable, "Corporate" represents items necessary to reconcile to the consolidated financial statements, which generally include corporate activity and corporate eliminations. Certain miscellaneous operating activities have been reclassified between Corporate and the applicable regional operating segment as of June 1, 2002, reflecting a change in the management of these activities. With respect to these classifications, the applicable prior year period has been reclassified to conform to the current year presentation.

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

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

| | Three Months Ended February 28, | | Nine Months Ended February 28, | |
|-----------------------------|------------------------------------|-------------------|-----------------------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Revenues | | | | |
| USA | \$1,127.9 | \$1,094.3 | \$3,443.1 | \$3,482.3 |
| EUROPE, MIDDLE EAST, AFRICA | 645.8 | 600.0 | 2,296.4 | 1,932.7 |
| ASIA PACIFIC | 335.1 | 286.0 | 996.2 | 844.6 |
| AMERICAS | 107.4 | 112.0 | 383.2 | 426.4 |
| OTHER | 184.7 | 168.0 | 593.0 | 524.8 |
| | <u>\$2,400.9</u> | <u>\$2,260.3</u> | <u>\$7,711.9</u> | <u>\$7,210.8</u> |
| | ===== | ===== | ===== | ===== |
| Management Pre-Tax Income | | | | |
| USA | \$ 210.0 | \$ 213.6 | \$ 664.9 | \$ 721.7 |
| EUROPE, MIDDLE EAST, AFRICA | 80.9 | 106.4 | 367.8 | 289.6 |
| ASIA PACIFIC | 81.3 | 55.7 | 216.7 | 172.3 |
| AMERICAS | 18.2 | 13.0 | 71.9 | 67.8 |
| OTHER | (10.0) | 2.7 | (13.8) | 9.5 |
| CORPORATE | (193.0) | (202.4) | (556.4) | (558.7) |
| | <u>\$ 187.4</u> | <u>\$ 189.0</u> | <u>\$ 751.1</u> | <u>\$ 702.2</u> |
| | ===== | ===== | ===== | ===== |
| | Feb. 28, 2003 | May 31, 2002 | | |
| | <u> </u> | <u> </u> | | |
| Accounts Receivable, net | | | | |
| USA | \$ 710.1 | \$ 654.4 | | |
| EUROPE, MIDDLE EAST, AFRICA | 700.5 | 571.1 | | |

| | | |
|------------------------------------|------------------|------------------|
| ASIA PACIFIC | 216.5 | 189.6 |
| AMERICAS | 109.5 | 125.3 |
| OTHER | 189.8 | 249.5 |
| CORPORATE | 23.0 | 17.2 |
| | <u>\$1,949.4</u> | <u>\$1,807.1</u> |
| | ===== | ===== |
| Inventories | | |
| USA | \$ 608.8 | \$ 613.4 |
| EUROPE, MIDDLE EAST, AFRICA | 400.9 | 336.5 |
| ASIA PACIFIC | 149.2 | 148.0 |
| AMERICAS | 79.0 | 62.9 |
| OTHER | 270.1 | 203.8 |
| CORPORATE | 11.2 | 9.2 |
| | <u>\$1,519.2</u> | <u>\$1,373.8</u> |
| | ===== | ===== |
| Property, Plant and Equipment, net | | |
| USA | \$ 220.5 | \$ 241.9 |
| EUROPE, MIDDLE EAST, AFRICA | 223.5 | 212.2 |
| ASIA PACIFIC | 385.6 | 378.4 |
| AMERICAS | 11.5 | 12.4 |
| OTHER | 109.6 | 113.3 |
| CORPORATE | 664.4 | 656.3 |
| | <u>\$1,615.1</u> | <u>\$1,614.5</u> |
| | ===== | ===== |

NOTE 7 - Commitments and Contingencies:

At February 28, 2003, the Company had letters of credit outstanding totaling \$847.5 million. These letters of credit were issued for the purchase of inventory.

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

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

Critical Accounting Policies

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

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

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

As a result of our adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142), we have made changes to our accounting policy for goodwill and intangible assets since May 31, 2002. The revised policy is described following.

We adopted FAS 142 effective June 1, 2002. In accordance with FAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized but instead will be measured for impairment at least annually, or when events indicate that an impairment exists. As required by FAS 142, in our impairment tests for goodwill and other indefinite-lived intangible assets, we compare the estimated fair value of goodwill and other intangible assets to the carrying value. If the carrying value exceeds our estimate of fair value, we calculate impairment as the excess of the carrying value over our estimate of fair value. Our estimates of fair value utilized in goodwill and other indefinite-lived intangible asset tests may be based upon a number of factors, including our assumptions about the expected future operating performance of our reporting units. Our estimates may change in future periods due to, among other things, technological change, economic conditions, or changes to our business

operations. Such changes may result in impairment charges recorded in future periods.

As discussed further below, upon adoption of FAS 142 on June 1, 2002, we recorded an impairment charge related to goodwill and other indefinite-lived intangible assets of \$266.1 million. This charge is shown on our statement of income as the cumulative effect of accounting change. In future periods, any goodwill impairment charges would be classified as a separate line item on our statement of income as part of income from continuing operations. Other indefinite-lived intangible asset impairment charges would be classified as other expense, also as part of income from continuing operations.

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

Operating Results

Revenue growth in our international regions drove a 6% increase in consolidated revenues in the third quarter of fiscal 2003 as compared to the third quarter of fiscal 2002, due in part to the strengthening of the euro versus the U.S. dollar. Changes in currency exchange rates, primarily the euro, drove 4% of the consolidated revenue growth. Consolidated revenues increased 7% in the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002, also driven by increased revenues in our international regions. These year-to-date revenues reflected 3% growth due to the change in currency exchange rates.

Our largest international region, Europe, Middle East, and Africa (EMEA), reported 8% revenue growth in the third quarter of fiscal 2003 compared to the third quarter of fiscal 2002. This growth reflected a 15% improvement due to translation of sales at a higher euro exchange rate and an 11% reduction due to changes in shipment timing due to our December 2002 supply chain system implementation. Consistent with our approach to the systems implementation in the U.S. last year, we closed our European distribution center from November 27, 2002 to December 6, 2002 to prepare for the new system implementation. Prior to the shut down period, we accelerated futures orders and deliveries from December to October and November. In addition, we aggressively liquidated closeout inventory prior to the shutdown. We estimate that these operational adjustments moved approximately \$66 million of revenue from the third quarter to the second quarter, reducing third quarter fiscal 2003 revenue growth by approximately eleven points. Excluding the benefit from the change in exchange rates, revenue growth for the region was led by increased sales in Spain and Portugal. Although year-to-date revenues for the UK market were essentially the same as the prior year, excluding the benefit of the change in exchange rates, revenues for the third quarter declined year-over-year partially as a result of the acceleration of third quarter shipments into the second quarter.

In the first nine months of fiscal 2003, EMEA reported revenues grew 19% as compared to the first nine months of fiscal 2002; 12 points of this growth were due to changes in currency exchange rates. Excluding the benefit of the change in exchange rates, revenues grew in all three business units (footwear, apparel, and equipment) and in most countries across the region, especially the emerging markets in central and eastern Europe.

EMEA management pre-tax income declined from \$106.4 million in the third quarter of fiscal 2002 to \$80.9 million in the third quarter of fiscal 2003. The decline was driven by the shift in third quarter revenues to the second quarter and incremental selling and administrative costs, partially offset by an improvement in EMEA's gross margin percentage. In contrast, for the first nine months of fiscal 2003, EMEA management pre-tax income grew 27%, to \$367.8 million from \$289.6 million in the first nine months of fiscal 2002. Higher year-to-date revenues and improved gross margins drove the increase, more than offsetting incremental selling and administrative costs.

In Asia Pacific, revenues increased 17% in the third quarter of fiscal 2003; 5 points of this growth were due to changes in currency exchange rates. Revenues increased 18% in the first nine months of fiscal 2003; 3 points of this growth came from changes in currency exchange rates. As in recent quarters, each of our three business units experienced growth across the region, and most countries in Asia Pacific reported higher revenues, particularly China, Korea, and Japan.

Management pre-tax income for the Asia Pacific region increased from \$55.7 million in the third quarter of fiscal 2002 to \$81.3 million in the third quarter of fiscal 2003 and from \$172.3 million in the first nine months of fiscal 2002 to \$216.7 million in the first nine months of fiscal 2003. These increases reflected higher revenues and improved gross margins that more than offset higher selling and administrative costs incurred to support the higher level of revenues.

In the Americas region, third quarter fiscal 2003 revenues decreased 4% compared to the third quarter of fiscal 2002, which reflected a higher level of sales more than offset by a 15% decline due to weaker currencies in Latin American markets. Likewise, year-to-date revenues decreased 10%, driven by a 16% decline due to changes in currency exchange rates. Excluding the currency exchange rate impact, the region experienced sales growth in Latin America partially offset by weakness in Canada.

Third quarter management pre-tax income for the Americas region grew from \$13.0 million in fiscal 2002 to \$18.2 million in fiscal 2003. On a year-to-date basis, management pre-tax income grew 6% from \$67.8 million in fiscal 2002 to \$71.9 million in fiscal 2003. For both periods, management pre-tax income improved despite lower reported revenues primarily due to an improved gross margin percentage.

In the U.S. region, reported revenues grew 3% in the third quarter of fiscal 2003 versus the third quarter of last year, but declined 1% in the first nine months of fiscal 2003 versus the first nine months of last year. The improved revenue trend in the third quarter was partially due to last year's acceleration of deliveries from the third quarter to the second quarter in advance of the U.S. supply chain system implementation in December 2001. We estimate last year's revenue acceleration improved the U.S. third quarter fiscal 2003 revenue growth rate by four points. This revenue acceleration did not affect year-to-date revenue growth.

Our U.S. apparel and equipment businesses grew on a quarterly and year-to-date basis as compared to the same periods last year. However, our U.S. footwear business experienced declines during the third quarter and year-to-date period as compared to the same periods last year. Lower sales to our largest customer, Foot Locker, and a lower average price per pair sold drove the year-over-year decline in U.S. footwear revenues. We expect U.S. sales to Foot Locker to be below prior year levels at least through the first half of fiscal 2004. This is a result of both lower orders from Foot Locker and limitations we have imposed on this customer's purchase of certain products. We are continuing to pursue incremental sales with other retailers in order to offset the decline in revenues from Foot Locker. Although we do not expect to fully offset the revenue loss from Foot Locker in the U.S. in the short term, we believe we will ultimately succeed in realigning distribution of our products to meet consumer demand and generate profitable revenue growth in the U.S. footwear business.

The reduction in average price per pair in U.S. footwear between fiscal 2003 and fiscal 2002 reflected a shift in sales mix toward classic footwear and kids models, which have a lower average price than our more complex adult performance models. Outstanding futures orders indicate that this trend will continue in the near term, although we expect the rate of decline versus the prior year to slow.

U.S. region management pre-tax income declined 2%, from \$213.6 million in the third quarter of fiscal 2002 to \$210.0 million in the third quarter of fiscal 2003 as higher selling and administrative costs more than offset the increase in revenues and a slight increase in gross margin percentage. On a year-to-date basis, U.S. management pre-tax income declined 8%, from \$721.7 million in the first nine months of fiscal 2002 to \$664.9 million in the first nine months of fiscal 2003, reflecting lower revenues and higher selling and administrative costs, partially offset by improvement in gross margins.

Other revenues include revenues from Bauer NIKE Hockey, Inc., Cole Haan Holdings, Inc., Hurley International LLC, and NIKE Golf. Beginning in the first quarter of fiscal 2003, the revenues from NIKE Golf operations in our largest golf markets have been excluded from the revenues of the regions and reported in the Other category, reflecting that we have begun managing these operations as a separate business. This NIKE Golf information for the prior year period has been reclassified to conform to the current year presentation.

Other revenues grew 10% in the third quarter of fiscal 2003 as compared to the third quarter of fiscal 2002 and 13% in the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002. The addition of revenues from our Hurley business, purchased in the fourth quarter of fiscal 2002, drove the increase in Other revenues in both the third quarter and year-to-date period. Lower NIKE Golf revenues in the third quarter of fiscal 2003 partially offset the increase from the Hurley business in the third quarter. (NIKE Golf business further discussed below.)

Other management pre-tax income declined from income of \$2.7 million in the third quarter of fiscal 2002 to a loss of \$10.0 million in the third quarter of fiscal 2003, and declined from income of \$9.5 million in the first nine months of fiscal 2002 to a loss of \$13.8 million in the first nine months of fiscal 2003. Reduced NIKE Golf profits drove these declines. The reduced NIKE Golf profits resulted from weaker demand in the U.S. golf market in the current year and start-up issues we experienced at a third-party distribution facility. We expect that demand for golf products throughout the industry and for our business may remain weak in the near term due to the current slowdown of the U.S. economy. In addition, while we are actively working to resolve the startup issues at our new distribution facility, those issues may continue to affect our NIKE Golf revenues and profitability during the fourth quarter of fiscal 2003.

The breakdown of revenues follows:

| | Three Months Ended February 28, | | | Nine Months Ended February 28 | | |
|---------------------|------------------------------------|----------|-------------|----------------------------------|-----------|-------------|
| | 2003 | 2002 | % change | 2003 | 2002 | % change |
| (in millions) | | | | | | |
| U.S.A. REGION | | | | | | |
| FOOTWEAR | \$ 761.4 | \$ 769.0 | -1% | \$2,222.5 | \$2,313.5 | -4% |
| APPAREL | 307.1 | 273.2 | 12% | 1,005.3 | 957.0 | 5% |
| EQUIPMENT AND OTHER | 59.4 | 52.1 | 14% | 215.3 | 211.8 | 2% |
| TOTAL U.S.A. | 1,127.9 | 1,094.3 | 3% | 3,443.1 | 3,482.3 | -1% |
| EMEA REGION | | | | | | |
| FOOTWEAR | 363.1 | 338.7 | 7% | 1,292.5 | 1,079.0 | 20% |
| APPAREL | 239.4 | 225.5 | 6% | 845.1 | 725.9 | 16% |
| EQUIPMENT AND OTHER | 43.3 | 35.8 | 21% | 158.8 | 127.8 | 24% |
| TOTAL EMEA | 645.8 | 600.0 | 8% | 2,296.4 | 1,932.7 | 19% |

ASIA PACIFIC REGION

| | | | | | | |
|---------------------|-------|-------|-----|-------|-------|-----|
| FOOTWEAR | 186.1 | 159.4 | 17% | 537.7 | 482.5 | 11% |
| APPAREL | 116.0 | 99.9 | 16% | 366.3 | 287.1 | 28% |
| EQUIPMENT AND OTHER | 33.0 | 26.7 | 24% | 92.2 | 75.0 | 23% |
| TOTAL ASIA PACIFIC | 335.1 | 286.0 | 17% | 996.2 | 844.6 | 18% |

AMERICAS REGION

| | | | | | | |
|---------------------|------|------|------|-------|-------|------|
| FOOTWEAR | 69.1 | 70.3 | -2% | 245.1 | 267.7 | -8% |
| APPAREL | 29.8 | 33.9 | -12% | 108.9 | 129.3 | -16% |
| EQUIPMENT AND OTHER | 8.5 | 7.8 | 9% | 29.2 | 29.4 | -1% |

| | | | | | | |
|----------------|-------|-------|-----|-------|-------|------|
| TOTAL AMERICAS | 107.4 | 112.0 | -4% | 383.2 | 426.4 | -10% |
|----------------|-------|-------|-----|-------|-------|------|

| | | | | | | |
|--|---------|---------|----|---------|---------|----|
| | 2,216.2 | 2,092.3 | 6% | 7,118.9 | 6,686.0 | 6% |
|--|---------|---------|----|---------|---------|----|

| | | | | | | |
|-------|-------|-------|-----|-------|-------|-----|
| OTHER | 184.7 | 168.0 | 10% | 593.0 | 524.8 | 13% |
|-------|-------|-------|-----|-------|-------|-----|

| | | | | | | |
|----------------|-----------|-----------|----|-----------|-----------|----|
| TOTAL REVENUES | \$2,400.9 | \$2,260.3 | 6% | \$7,711.9 | \$7,210.8 | 7% |
|----------------|-----------|-----------|----|-----------|-----------|----|

The previous discussion includes disclosure of "management pre-tax income" for our operating segments. We have reported management pre-tax income in accordance with Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information". As discussed in Note 6-Operating Segments in the attached Notes to Unaudited Condensed Consolidated Financial Statements, certain corporate costs are not included in the management pre-tax income of our operating segments.

Worldwide futures and advance orders for our footwear and apparel scheduled for delivery from March 2003 to July 2003 were 5.8% higher than such orders booked in the comparable period of fiscal 2002. The percentage growth in these orders is not necessarily indicative of our expectation of revenue growth in subsequent periods. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations can cause differences in the comparisons between future orders and actual revenues. Moreover, a significant portion of our revenues is not derived from futures orders, including wholesale sales of equipment, U.S. licensed team apparel, Bauer NIKE Hockey, Cole Haan, NIKE Golf, Hurley, and retail sales across all brands.

In the third quarter of fiscal 2003, our quarterly gross margin percentage improved 1.6 points as compared to the third quarter of fiscal 2002, continuing the trend of quarter-on-quarter increases over the previous four quarters. Likewise, for the first nine months of fiscal 2003 compared to the first nine months of fiscal 2002, our gross margin percentage improved 1.9 points. The primary driver of the consolidated gross margin improvement was higher in-line apparel margins, reflecting our global initiatives to lower sourcing and distribution costs. The apparel improvement was partially offset by apparel sourcing issues related to production scheduling and factory deliveries we have experienced in the U.S. region throughout fiscal 2003. Lower pricing of NIKE Golf products as a result of the market conditions discussed above also had a negative impact on margins during the third quarter of fiscal 2003.

Third quarter selling and administrative expense increased as a percentage of revenues from 30.2% in fiscal 2002 to 31.4% in fiscal 2003. Year-to-date selling and administrative expense increased as a percentage of revenues from 28.5% in fiscal 2002 to 30.0% in fiscal 2003. Both demand creation and operating overhead expense increased as a percentage of revenues in the third quarter and year-to-date period. Third quarter demand creation expense grew from \$242.1 million to \$271.7 million while year-to-date demand creation expense increased from \$734.2 million to \$867.6 million. Higher costs incurred in the EMEA region drove the growth in demand creation expense, reflecting, 1) a stronger euro currency exchange rate compared to the U.S. dollar, which resulted in higher U.S. dollar expenses for costs that are euro-denominated, 2) our new endorsement agreement with the Manchester United soccer team that became effective in August 2002, and 3) a comparison to relatively low spending in the third quarter of the prior year as we shifted resources to the World Cup marketing campaign beginning in late fiscal 2002. For the year-to-date period, the increase in demand creation expense also reflected significant first quarter costs for our World Cup 2002 campaign. In addition, we increased demand creation spending in the U.S. region despite lower revenues, in order to drive continued consumer demand while we undergo the realignment of product distribution discussed above.

Operating overhead increased between the third quarter of fiscal 2003 and the third quarter of fiscal 2002, from \$440.4 million to \$482.2 million, and increased between the first nine months of fiscal 2003 and the first nine months of fiscal 2002, from \$1,322.2 million to \$1,444.0 million. Major drivers of these increases were the stronger euro, costs related to the supply chain systems implementation in EMEA, investments in our NIKE Golf business infrastructure, and overhead costs associated with our recently acquired Hurley business.

Third quarter interest expense decreased from \$12.1 million in fiscal 2002 to \$10.8 million in fiscal 2003, a decline of 11%. Year-to-date interest expense decreased from \$37.4 million in fiscal 2002 to \$32.2 million in 2003, a decline of 14%. The decrease reflected both lower interest rates and lower average debt levels, as we have continued to use operating free cash flow to reduce total debt.

Other income/expense was a net expense of \$23.9 million compared to net income for the same quarter of last year of \$0.1 million. Year-to-date, other income/expense was a net expense of \$48.3 million compared to a net expense of \$11.8 million in the prior year. Significant amounts included in other income/expense were interest income, profit sharing expense, goodwill amortization (fiscal 2002 only), and certain

foreign currency gains and losses.

An increase in net foreign currency losses drove the increase in other expense versus the third quarter and first nine months of last year. These foreign currency losses were primarily due to hedge losses on intercompany charges to a European subsidiary, whose functional currency is the euro. The hedge losses reflected that the euro has strengthened considerably since we entered into the related hedge contracts. These losses were offset by favorable translation of foreign-currency-denominated profits. Therefore, the net year-over-year effect of these hedge losses and favorable translation of foreign currency-denominated profits is not material to our consolidated net income for either the third quarter or the year-to-date period. We expect these hedge losses will continue in the fourth quarter of fiscal 2003 and will continue to largely offset the positive translation impact of stronger foreign currencies on consolidated net income.

In the third quarter, we adjusted our year-to-date tax rate to 34.2%, our estimate of our full year effective tax rate. This rate is relatively consistent with the effective rate for all of fiscal 2002 of 34.3%. This reflects that we expect higher taxes on foreign earnings due to increased taxable income at a foreign tax jurisdiction with a relatively high tax rate, offset by additional research credits as compared to fiscal 2002.

Included in net income for the first nine months of fiscal 2003 is a \$266.1 million charge for the cumulative effect of implementing FAS 142. This charge related to the impairment of goodwill and trademarks associated with our Bauer NIKE Hockey subsidiary and the goodwill of our Cole Haan subsidiary, reflecting that the fair values we estimated for these assets were less than the carrying values. In addition, the adoption of this accounting standard resulted in a reduction to goodwill and intangible asset amortization of \$3.3 million in each quarter of fiscal 2003 as compared to fiscal 2002 (\$10.1 million over the year-to-date period). See the accompanying Notes to Unaudited Condensed Consolidated Financial Statements for further information.

Current world events, including the conflict in Iraq, have created uncertainty about the future prospects for the U.S. and world economies. Although to date we do not believe these events have had a material impact on our business, the overall effect these events will ultimately have on the demand for NIKE products around the world and our cost of doing business is unclear. In the face of this uncertainty, we are monitoring each of our markets closely to ensure that we respond quickly to changes in local economies and consumer trends. As of the current date, these world events have not caused us to revise our revenue and profit growth goals for the remainder of fiscal 2003.

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). This statement requires that a liability for an asset retirement obligation be recognized at fair value in the period the obligation is incurred and the associated retirement costs be capitalized as part of the carrying amount of the tangible long-lived asset. All provisions of this statement will be effective for the Company on June 1, 2003. We do not expect that the adoption of FAS 143 will have a material impact on our consolidated financial position or results of operations.

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

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). This statement supercedes Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability is recognized at the date an entity commits to an exit plan. FAS 146 also establishes that the liability should initially be measured and recorded at fair value. The provisions of FAS 146 are effective for any exit and disposal activities initiated after December 31, 2002. We have not entered into any significant exit or disposal activities since the effective date of this rule. As such, FAS 146 has not had any impact on our consolidated financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for our third quarter of fiscal 2003.

In connection with various contracts and agreements, we provide routine indemnifications relating to the enforceability of intellectual property, coverage for legal issues that arise, and other items that fall under the scope of FIN 45. Currently, we have several such agreements in place. However based on our historical experience and estimated probability of future loss, we have determined that the fair value of such

indemnifications is not material. Hence, the adoption of FIN 45 has not had an impact on our consolidated financial position or results of operations, and no impact is expected in the foreseeable future.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock- Based Compensation- Transition and Disclosure- an amendment of FASB Statement No. 123" (FAS 148). This statement amends SFAS No. 123 "Accounting for Stock Based Compensation" (FAS 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. FAS 148 also amends the disclosure requirements of FAS 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements. The disclosure provisions will be effective for us beginning with our fiscal 2003 10-K filing. The annual impact of a change to the fair value model prescribed by FAS 123 has been disclosed in our previous annual 10-K filings. At this time, we plan to continue to account for stock-based compensation using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", rather than change to the FAS 123 fair value method.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", addresses consolidation of variable interest entities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. The provisions of FIN 46 are effective immediately for those variable interest entities created after January 31, 2003. The provisions are effective for the first period beginning after June 15, 2003 for those variable interests held prior to February 1, 2003. We do not currently have any variable interest entities as defined in FIN 46. Accordingly, we do not expect the provisions of FIN 46 to affect our consolidated financial position or results of operations.

Liquidity and Capital Resources

Cash provided by operations was \$428.8 million in the first nine months of fiscal 2003, compared to \$504.1 million in the first nine months of fiscal 2002. Our primary source of operating cash flow in the current period was Income before accounting change of \$493.9 million. Cash provided by operations was less than that of last year primarily due to a greater increase in working capital during the current period.

Cash used by investing activities during the first nine months of fiscal 2003 was \$168.2 million, compared to \$199.0 million in the same period last year. These amounts were comprised primarily of capital expenditures. The most significant capital expenditures in both periods were for computer equipment and software related to our supply chain initiative, the spending for which declined in fiscal 2003 as compared to fiscal 2002. In addition, during both fiscal 2003 and fiscal 2002, we continued investment in NIKE-owned retail stores, primarily outside the U.S. Finally, we incurred costs in various distribution center projects, the most significant of which is the construction of a new storage building in Japan during the current fiscal year, with scheduled opening in the second half of fiscal 2004.

Cash used by financing activities for the first nine months of fiscal 2003 was \$383.9 million, up from \$249.3 million in the same period in fiscal 2002. In both years, these amounts included cash used to reduce short-term debt, repay current maturities of long-term debt, pay dividends to shareholders, and repurchase shares of company stock. These uses of cash were partially offset by proceeds from long-term debt issuances (discussed further below) and the exercise of employee stock options and other stock issuances.

The share repurchases were part of a \$1 billion, four-year, share repurchase program that began in fiscal 2001. In the third quarter of fiscal 2003, we purchased 0.6 million shares of NIKE's Class B common stock for \$26.6 million, and in the first nine months of fiscal 2003, we purchased 2.6 million shares for \$115.0 million. To date under the program, we have purchased 10.9 million shares for \$509.7 million. We expect to fund this program from operating free cash flow. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

In October 2001, we filed a shelf registration statement with the Securities and Exchange Commission (SEC) for \$1.0 billion. In May 2002, we commenced a medium-term note program under the shelf registration that allows us to issue up to \$500.0 million in medium-term notes, as our capital needs dictate. As described in our most recent Form 10-K, during the first quarter of fiscal 2003, we issued a total of \$90.0 million in notes under this program. The notes have coupon rates that range from 4.80% to 5.66%. The maturities range from July 9, 2007 to August 7, 2012. For each of the notes, we have entered into an interest rate swap agreement whereby we receive fixed interest payments at the same rate as the notes and pay variable interest payments based on the six-month London Inter Bank Offering Rate (LIBOR) plus a spread. Each swap has the same notional amount and maturity date as its respective note. After issuance of these notes, \$410.0 million remains available to be issued under our medium-term note program, and another \$500.0 million remains available to be issued under the remainder of the shelf registration. We may issue additional notes under the shelf registration in the near future depending on working capital and general corporate needs.

As disclosed in our Form 10-K as of May 31, 2002, as of that date, we had two committed credit facilities in place, a \$600.0 million, 364-day credit facility and a \$500.0 million, multi-year facility with a group of banks. The 364-day facility matured in November 2002, and at that time we renewed and reduced the facility to \$500.0 million. Thus, a total of \$1.0 billion is available under the two facilities. No borrowings are currently outstanding under these facilities. No other terms for these facilities have changed from those described in our Form 10-K as of May 31, 2002. We are currently in full compliance with each of the covenants contained in these credit agreements and believe it is unlikely we will fail to meet any of these covenants in the foreseeable future.

Liquidity is also provided by our commercial paper program, under which there was \$106.9 million and \$338.3 million outstanding at February 28, 2003 and May 31, 2002, respectively.

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

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

Dividends declared per share of common stock in the third quarter of fiscal 2003 were \$.14 per share.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information previously reported under Item 7A of our most recent Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

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

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

Special Note Regarding Forward-Looking Statements and Analyst Reports

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

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

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

Part II - Other Information

Item 1. Legal Proceedings:

NIKE settled the securities class action lawsuits that were consolidated under the caption IN RE NIKE, INC. SECURITIES LITIGATION, CV-01-332-KI, in the United States District Court for the District of Oregon. The settlement was approved by the court on February 24, 2003. We paid \$8.9 million in cash, funded by the Company's directors and officers liability insurance. In the settlement, NIKE and the officers and directors named in the lawsuits do not admit, and continue to deny, any and all allegations of wrongdoing, and they received a full release of all claims asserted in the litigation.

In a related shareholder derivative lawsuit, *Metivier v. Denunzio, et al.*, 0104-04339, in the Multnomah County Circuit Court of the State of Oregon, the defendants, including the Company and certain directors and officers, filed a motion to dismiss the complaint on March 31, 2003. A decision on the motion is expected in the next several months.

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

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

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

4.3 Second Amendment to Credit Agreement dated as of November 15, 2002. (incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2002).

10.1 NIKE, Inc. Foreign Subsidiary Employee Stock Purchase Plan dated as of February 14, 2003.

10.2 NIKE, Inc. Deferred Compensation Plan dated as of January 1, 2003. *

12.1 Computation of Ratio of Earnings to Charges.

99 Certifications of Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. 1350.

* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K:

The following reports on Form 8-K were filed during the fiscal quarter ending February 28, 2003:

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.

BY: /s/ Donald W. Blair

Donald W. Blair
Chief Financial Officer

DATED: April 14, 2003

CERTIFICATIONS

I, Philip H. Knight, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NIKE, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Philip H. Knight

Philip H. Knight
Chief Executive Officer

I, Donald W. Blair, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NIKE, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

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

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

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

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

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

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

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

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

Date: April 14, 2003

/s/ Donald W. Blair

*Donald W. Blair
Chief Financial Officer*

NIKE, INC.
FOREIGN SUBSIDIARY EMPLOYEE STOCK PURCHASE PLAN

(As adopted on February 14, 2003)

1. Purpose of the Plan. NIKE, Inc. (the "Company") believes that ownership of shares of its common stock by employees of Participating Foreign Subsidiaries (as defined below) is desirable as an incentive to better performance and improvement of profits, and as a means by which employees may share in the rewards of growth and success. The purpose of the Company's Foreign Subsidiary Employee Stock Purchase Plan (the "Plan") is to provide a convenient means by which employees of Participating Foreign Subsidiaries may purchase the Company's shares and a method by which the Company may assist and encourage such employees to become share owners. The Company has previously operated its Employee Stock Purchase Plan pursuant to which employees of the Company and selected U.S. subsidiaries have had a similar opportunity to purchase Company shares.

2. Shares Reserved for the Plan. There are 1,000,000 shares of the Company's authorized but unissued or reacquired Class B Common Stock reserved for purposes of the Plan. The number of shares reserved for the Plan is subject to adjustment in the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the outstanding Class B Common Stock of the Company. The determination of whether an adjustment shall be made and the manner of any such adjustment shall be made by the Board of Directors of the Company, which determination shall be conclusive.

3. Administration of the Plan. The Plan shall be administered by or under the direction of the Compensation Committee of the Board of Directors, which may delegate some or all of its duties and authority to one or more Company employees. The Compensation Committee may promulgate rules and regulations for the operation of the Plan which may vary with local requirements, adopt forms for use in connection with the Plan, and decide any question of interpretation of the Plan or rights arising thereunder. The Compensation Committee may consult with counsel for the Company on any matter arising under the Plan. All determinations and decisions of the Compensation Committee shall be conclusive.

4. Eligible Employees. All Eligible Employees (as defined below) of each subsidiary of the Company that is designated by the Compensation Committee as a participant in the Plan (such participating subsidiary being hereinafter called a "Participating Foreign Subsidiary") are eligible to participate in the Plan. An "Eligible Employee" is an employee who has been employed by a Participating Foreign Subsidiary for at least one full month prior to the Offering Date (as defined below) excluding, however, (a) any employee who does not meet such additional eligibility criteria as may be established from time to time by the Compensation Committee for defined groups of employees, and (b) any employee who would, after a purchase of shares under the Plan, own or be deemed (under Section 424(d) of the United States Internal Revenue Code of 1986, as amended (the "Code")) to own stock (including stock subject to any outstanding options held by the employee) possessing 5 percent or more of the total combined voting power or value of all classes of stock of the Company or any parent or subsidiary of the Company.

5. Offerings.

(a) Offering and Purchase Dates. The Plan shall be implemented by a series of six-month offerings (the "Offerings"), with a new Offering commencing on April 1 and October 1 of each year beginning with April 1, 2003. Each Offering commencing on April 1 of any year shall end on September 30 of that year, and each Offering commencing on October 1 of any year shall end on March 31 of the following year. The first day of each Offering is the "Offering Date" for that Offering and the last day of each Offering is the "Purchase Date" for that Offering.

(b) Grants; Limitations. On each Offering Date, each Eligible Employee shall be granted an option under the Plan to purchase shares of Class B Common Stock on the Purchase Date for the Offering for the price determined under paragraph 7 of the Plan exclusively through payroll deductions or other contributions authorized under paragraph 6 of the Plan; provided, however, that (i) no option shall permit the purchase of more than 1,000 shares, and (ii) no option may be granted under the Plan that would allow an employee's right to purchase shares under all employee stock purchase plans of the Company and its parents and subsidiaries to accrue at a rate that exceeds US\$25,000 of fair market value of shares (determined at the date of grant) for each calendar year in which such option is outstanding.

6. Participation in the Plan.

(a) Initiating Participation. An Eligible Employee may participate in an Offering under the Plan by submitting to the Company or its agent a subscription in a form specified by the Company. The subscription must be submitted no later than the "Subscription Deadline," which shall be a number of days prior to the Offering Date with the exact number of days being established from time to time by the Compensation Committee by written notice to Eligible Employees. Once submitted, a subscription shall remain in effect unless amended or terminated, and upon the expiration of an Offering the participants in that Offering will be automatically enrolled in the new Offering starting the following day.

(b) Payroll Deductions or Other Contributions. Unless otherwise determined by the Compensation Committee in accordance with this paragraph 6(b), each subscription shall include a payroll deduction authorization that will authorize the employing corporation to make payroll deductions in an amount designated by the participant from each of the participant's paychecks during the Offering. The designated amount to be deducted from each paycheck must be a whole percentage of not less than one percent or more than 10 percent of the participant's Compensation (as defined below) for the period covered by the paycheck. If the Compensation Committee determines that payroll deductions are either illegal or inadvisable in any particular jurisdiction, the Committee may provide for alternate methods of contributing to the Plan for

all participants in that jurisdiction, provided that no participant shall be permitted to contribute less than one percent or more than 10 percent of the participant's aggregate Compensation paid during the Offering. Each Participating Foreign Subsidiary will promptly remit the amount of payroll deductions or other contributions to the Company.

(c) Definition of Compensation. "Compensation" means the gross amount of participant's base salary, hourly compensation including overtime pay, performance bonus compensation and sales commissions, or such other definitions of Compensation as may be established from time to time by the Compensation Committee for defined groups of employees.

(d) Amending Participation. After a participant has begun participating in the Plan by initiating payroll deductions, the participant may amend the payroll deduction authorization (i) once during any Offering to decrease the amount of payroll deductions, and (ii) effective for the first paycheck of a new Offering to either increase or decrease the amount of payroll deductions. A request for a decrease in payroll deductions during an Offering must be submitted to the Company in a form specified by the Company no later than the Change Deadline (as defined below) for that Offering, and shall be effective for any paycheck only if the request is received by the Company no later than the last business day of the immediately preceding calendar month, or by such other deadline as may be established from time to time by the Compensation Committee for defined groups of employees. A request for an increase or decrease in payroll deductions effective for the first paycheck of a new Offering must be submitted to the Company in a form specified by the Company no later than the Subscription Deadline for the new Offering. In addition, if the amount of payroll deductions from any participant during an Offering exceeds the maximum amount that can be applied to purchase shares in that Offering under the limitations set forth in paragraph 5(b) above, then (x) as soon as practicable following a written request from the participant, payroll deductions from the participant shall cease and all such excess amounts shall be refunded to the participant, and

(y) payroll deductions from the participant shall restart as of the commencement of the next Offering at the rate set forth in the participant's then effective payroll deduction authorization. If the Compensation Committee provides an alternative to payroll deduction as a method of contributing to the Plan in any jurisdiction, the Committee shall also specify terms for amending contribution levels in that jurisdiction.

(e) Terminating Participation. After a participant has begun participating in the Plan, the participant may terminate participation in the Plan by notice to the Company in a form specified by the Company. To be effective to terminate participation in an Offering, a notice of termination must be submitted no later than the "Change Deadline," which shall be a number of days prior to the Purchase Date for that Offering with the exact number of days being established from time to time by the Compensation Committee by written notice to participants. Participation in the Plan shall also terminate when a participant ceases to be an Eligible Employee for any reason, including death or retirement. A participant may not reinstate participation in the Plan with respect to a particular Offering after once terminating participation in the Plan with respect to that Offering. Upon termination of a participant's participation in the Plan, all amounts deducted from the participant's Compensation or otherwise contributed by the participant, and not previously used to purchase shares under the Plan, shall be returned to the participant.

7. Option Price. The price at which shares shall be purchased in an Offering shall be in US dollars and shall be the lower of (a) 85% of the fair market value of a share of Class B Common Stock on the Offering Date of the Offering or (b) 85% of the fair market value of a share of Class B Common Stock on the Purchase Date of the Offering. The fair market value of a share of Class B Common Stock on any date shall be the closing price on the immediately preceding trading day of the Class B Common Stock on the New York Stock Exchange or, if the Class B Common Stock is not traded on the New York Stock Exchange, such other reported value of the Class B Common Stock as shall be specified by the Board of Directors.

8. Purchase of Shares. All amounts withheld from the Compensation of a participant or otherwise contributed by a participant shall be credited to his or her account under the Plan. No interest will be paid on such accounts, unless otherwise determined by the Board of Directors or required under local law. If amounts are withheld in any currency other than US dollars, the amounts in participants' accounts shall be converted into US dollars based on the closing exchange rates between local currencies and US dollars on the fourth business day prior to each Purchase Date as reported in the Wall Street Journal. On each Purchase Date, the amount of the account of each participant will be applied to the purchase of shares (including fractional shares) by such participant from the Company at the price determined under paragraph 7 above. Any cash balance remaining in a participant's account after a Purchase Date as a result of the limitations set forth in paragraph 5(b) above shall be repaid to the participant.

9. Delivery and Custody of Shares. Shares purchased by participants pursuant to the Plan will be delivered to and held in the custody of such investment or financial firm (the "Custodian") as shall be appointed by the Compensation Committee. The Custodian may hold in nominee or street name certificates for shares purchased pursuant to the Plan, and may commingle shares in its custody pursuant to the Plan in a single account without identification as to individual participants. By appropriate instructions to the Custodian, a participant may from time to time sell all or part of the shares held by the Custodian for the participant's account at the market price at the time the order is executed. If a participant desires to sell all of the shares in his or her account, the Custodian or the Company will purchase any fraction of a share in the account at the same price per share that the whole shares are sold on the market. By appropriate instructions to the Custodian, a participant may obtain (a) transfer into the participant's own name of all or part of the whole shares held by the Custodian for the participant's account and delivery of such whole shares to the participant, or (b) transfer of all or part of the whole shares held for the participant's account by the Custodian to a regular individual brokerage account in the participant's own name, either with the firm then acting as Custodian or with another firm; provided, however, that no shares may be transferred under (a) or (b) until two years after the Offering Date of the Offering in which the shares were purchased.

10. Records and Statements. The Custodian will maintain the records of the Plan. As soon as practicable after each Purchase Date each participant will receive a statement showing the activity of his or her account since the preceding Purchase Date and the balance on the Purchase Date as to both cash and shares. Participants will be furnished such other reports and statements, and at such intervals, as the Compensation Committee shall determine from time to time.

11. Expense of the Plan. The Company will pay all expenses incident to operation of the Plan, including costs of record keeping, accounting fees, legal fees, commissions and issue or transfer taxes on purchases pursuant to the Plan, on dividend reinvestments and on delivery of shares to a participant or into his or her brokerage account. The Company will not pay expenses, commissions or taxes incurred in connection with sales of shares by the Custodian at the request of a participant. Expenses to be paid by a participant will be deducted from the proceeds of sale prior to remittance.

12. Rights Not Transferable. The right to purchase shares under this Plan is not transferable by a participant, and such right is exercisable during the participant's lifetime only by the participant. Upon the death of a participant, any cash withheld or contributed and not previously applied to purchase shares, together with any shares held by the Custodian for the participant's account shall be transferred to the persons entitled thereto under the laws of the domicile of the participant upon a proper showing of authority.

13. Dividends and Other Distributions; Reinvestment. Stock dividends and other distributions in shares of Class B Common Stock of the Company on shares held by the Custodian shall be issued to the Custodian and held by it for the account of the respective participants entitled thereto. Cash distributions other than dividends, if any, on shares held by the Custodian will be paid currently to the participants entitled thereto. Cash dividends, if any, on shares held by the Custodian will be reinvested in Class B Common Stock on behalf of the participants entitled thereto. The Custodian shall establish a separate account for each participant for the purpose of holding shares acquired through reinvestment of the participant's dividends. On each dividend payment date, the Custodian shall receive from the Company the aggregate amount of dividends payable with respect to all shares held by the Custodian for participants' accounts under the Plan. As soon as practicable thereafter, the Custodian shall use all of the funds so received to purchase shares of Class B Common Stock in the public market, and shall then allocate such shares (including fractional shares) among the dividend reinvestment accounts of the participants pro rata based on the amount of dividends reinvested for each participant. A participant may sell or transfer shares in the participant's dividend reinvestment account in accordance with paragraph 9 above, except that there shall be no holding period required for a transfer from a dividend reinvestment account.

14. Voting and Shareholder Communications. In connection with voting on any matter submitted to the shareholders of the Company, the Custodian will cause the shares held by the Custodian for each participant's accounts to be voted in accordance with instructions from the participant or, if requested by a participant, furnish to the participant a proxy authorizing the participant to vote the shares held by the Custodian for his or her accounts. Copies of all general communications to shareholders of the Company will be sent to participants in the Plan.

15. Tax Withholding. In connection with purchases of shares under the Plan, the Company shall determine the amounts, if any, required to be withheld to satisfy any applicable tax or other withholding obligations of Participating Foreign Subsidiaries under the laws of the jurisdictions in which participants perform services. The Participating Foreign Subsidiaries shall withhold such amounts from other amounts payable to the participants, including all forms of Compensation, subject to applicable law.

16. Responsibility and Indemnity. Neither the Company, its Board of Directors, the Compensation Committee, the Custodian, any Participating Foreign Subsidiary, nor any member, officer, agent, or employee of any of them, shall be liable to any participant under the Plan for any mistake of judgment or for any omission or wrongful act unless resulting from gross negligence, willful misconduct or intentional misfeasance. The Company will indemnify and save harmless its Board of Directors, the Compensation Committee, the Custodian and any such member, officer, agent or employee against any claim, loss, liability or expense arising out of the Plan, except such as may result from the gross negligence, willful misconduct or intentional misfeasance of such entity or person.

17. Conditions and Approvals. The obligations of the Company under the Plan shall be subject to compliance with all applicable laws and regulations, compliance with the rules of any stock exchange on which the Company's securities may be listed, and approval of such governmental authorities or agencies as may have jurisdiction over the Plan or the Company. The Company will use its best effort to comply with such laws, regulations and rules and to obtain such approvals.

18. Amendment of the Plan. The Board of Directors of the Company may from time to time amend the Plan in any and all respects.

19. Termination of the Plan. The Plan shall terminate when all of the shares reserved for purposes of the Plan have been purchased, provided that the Board of Directors in its sole discretion may at any time terminate the Plan, either completely or with respect to any Participating Foreign Subsidiary, without any obligation on account of such termination, except as hereinafter in this paragraph provided. Upon termination of the Plan, the cash and shares, if any, held in the accounts of each participant shall forthwith be distributed to the participant or to the participant's order, provided that if prior to the termination of the Plan, the Board of Directors and shareholders of the Company shall have adopted and approved a substantially similar plan, the Board of Directors may in its discretion determine that the accounts of each participant under this Plan shall be carried forward and continued as the accounts of such participant under such other plan, subject to the right of any participant to request distribution of the cash and shares, if any, held for his accounts.

NIKE, INC.

DEFERRED COMPENSATION PLAN

(Amended and Restated Effective January 1, 2003)

Incorporates Provisions of:

2000 Restatement
Amendment 2000-1
Amendment 2001-1

Prepared by:

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TABLE OF CONTENTS

| | Page | |
|--------------|---|----|
| ARTICLE I | TITLE AND DEFINITIONS | 2 |
| 1.1 | Title | 2 |
| 1.2 | Definitions | 2 |
| ARTICLE II | PARTICIPATION | 6 |
| 2.1 | Participation | 6 |
| ARTICLE III | DEFERRAL ELECTIONS | 7 |
| 3.1 | Elections to Defer Compensation | 7 |
| 3.2 | Company Contributions | 8 |
| 3.3 | Investment Elections | 9 |
| 3.4 | Deferral of Term Incentive Payments | 10 |
| ARTICLE IV | ACCOUNTS | 11 |
| 4.1 | Participant Accounts | 11 |
| ARTICLE V | VESTING | 12 |
| 5.1 | Account | 12 |
| ARTICLE VI | GENERAL DUTIES | 13 |
| 6.1 | Trustee Duties | 13 |
| 6.2 | Company Contributions | 13 |
| 6.3 | Department of Labor Determination | 13 |
| ARTICLE VII | DISTRIBUTIONS | 13 |
| 7.1 | Distribution of Deferred Compensation - Termination of Service | 13 |
| 7.2 | Scheduled and Unscheduled Withdrawals | 14 |
| 7.3 | Unforeseeable Emergency | 16 |
| 7.4 | Change of Control | 17 |
| 7.5 | Section 162(m) Limitation | 17 |
| 7.6 | Inability To Locate Participant | 17 |
| ARTICLE VIII | ADMINISTRATION | 18 |
| 8.1 | Retirement Committee | 18 |
| 8.2 | Retirement Committee Action | 18 |
| 8.3 | Powers and Duties of the Retirement Committee | 18 |
| 8.4 | Construction and Interpretation | 19 |
| 8.5 | Information | 19 |
| 8.6 | Compensation, Expenses and Indemnity | 19 |
| 8.7 | Quarterly Statements | 20 |
| ARTICLE IX | CLAIMS PROCEDURE | 20 |
| 9.1 | Submission of Claim. | 20 |
| 9.2 | Denial of Claim. | 20 |
| 9.3 | Review of Denied Claim. | 20 |
| 9.4 | Decision Review of Denied Claim. | 21 |
| ARTICLE X | MISCELLANEOUS | 21 |
| 10.1 | Unsecured General Creditor | 21 |
| 10.2 | Restriction Against Assignment | 21 |
| 10.3 | Withholding | 21 |
| 10.4 | Amendment, Modification, Suspension or Termination | 22 |
| 10.5 | Governing Law | 22 |
| 10.6 | Receipt or Release | 22 |
| 10.7 | Payments on Behalf of Persons Under Incapacity | 22 |
| 10.8 | No Employment Rights | 22 |
| 10.9 | Headings, etc. Not Part of Agreement. | 23 |
| 10.10 | Tax Liabilities from Plan. | 23 |

RECITALS

- (a) NIKE, Inc. (the "Company") adopted the Supplemental Executive Savings Plan effective February 1, 1994 (the "SESP"). The SESP was adopted to provide an opportunity for eligible employees to set aside additional amounts for retirement on a tax deferred basis and to provide a limited make-up of profit sharing contributions lost as a result of the limit on compensation under Section 401(a)(17) of the Internal Revenue Code of 1986 (the "Code") under the Company's 401(k) Savings and Profit Sharing Plan for employees of NIKE, Inc. (the "Profit Sharing Plan"). The SESP is a nonqualified deferred compensation plan for the benefit of a select group of management or highly-compensated employees of the Company.
- (b) The Company adopted the Supplemental Executive Profit Sharing Plan effective as of June 1, 1995 (the "SESP") to expand the make-up of profit sharing contributions lost under the Profit Sharing Plan and to separate the restoration provisions from the elective deferral provisions of the SESP.
- (c) Effective as of January 1, 1998, the Company combined the SESP and the SESP and made certain other changes. The resulting plan was renamed the NIKE, Inc. Deferred Compensation Plan (the "Plan"). The Company amended and restated the Plan, effective as of January 1, 2000.
- (d) Effective January 1, 2003, the Company wishes again to amend and restate the Plan to reflect a change in trustee, the addition of an opportunity for Participants to defer payments under the Long Term Incentive Plan of NIKE, Inc., and other administrative changes in the Plan.
- (e) Under the Plan, the Company is obligated to pay vested accrued benefits to Plan Participants and their Beneficiary or Beneficiaries from the Company's general assets.
- (f) In connection with the Plan, the Company has established an irrevocable trust (the "Trust"). The Company intends to make contributions to the Trust so that such contributions will be held by the Trustee and invested, reinvested and distributed, all in accordance with the provisions of this Plan and the Trust Agreement.
- (g) The Company intends that amounts contributed to the Trust and the earnings thereon shall be used by the Trustee to satisfy the liabilities of the Company under the Plan in accordance with the procedures set forth herein.
- (h) The Company intends that the Trust be a "grantor trust" with the principal and income of the Trust treated as assets and income of the Company for federal and state income tax purposes.
- (i) The Company intends that the assets of the Trust shall at all times be subject to the claims of the general creditors of the Company as provided in the Trust Agreement.
- (j) The Company intends that the existence of the Trust shall not alter the characterization of the Plan as "unfunded" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and shall not be construed to provide income to Plan Participants prior to actual payment of the vested accrued benefits thereunder.

NOW THEREFORE, the Company does hereby adopt this amended and restated Plan as follows:

ARTICLE I

TITLE AND DEFINITIONS

1.1 Title

This Plan shall be known as the NIKE, Inc. Deferred Compensation Plan.

1.2 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

- (a) "Account" means for each Participant the bookkeeping account maintained by the Retirement Committee that is credited with amounts equal to (1) the portion of the Participant's Salary that he or she elects to defer, (2) the portion of the Participant's Bonus that he or she elects to defer, (3) the portion of the Participant's Commissions that he or she elects to defer, (4) the portion of the Participant's Fees that he or she elects to defer, (5) the portion of the Participant's Long Term Incentive Payment that he or she elects to defer, (6) Company contributions, if any, made to the Plan for the Participant's benefit, and (7) adjustments to reflect deemed earnings pursuant to Section 4.1(e).
- (b) "Actuarial Equivalent" means the actuarial present value determined by the actuary appointed by the Company, in accordance with generally accepted actuarial principles, with a discount for mortality using the 1983 Group Annuity Mortality Table and a discount for interest

at the 30- year Treasury rate for July 1999 (5.98%).

- (c) "Beneficiary" or "Beneficiaries" means the beneficiary last designated in writing by a Participant in accordance with procedures established by the Retirement Committee to receive the benefits specified hereunder in the event of the Participant's death. No Beneficiary designation shall become effective until it is filed with the Retirement Committee during the Participant's lifetime.
- (d) "Board of Directors" or "Board" means the Board of Directors of the Company.
- (e) "Bonus" means any cash-based incentive compensation (other than Commissions and Long Term Incentive Payments) that is payable to a Participant in addition to the Participant's Salary.
- (f) "Change of Control" means any of the following:
- (1) The purchase or other acquisition by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "Act"), or any comparable successor provisions, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of forty percent or more of either the outstanding shares of Class A and Class B common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally;
 - (2) The approval by the stockholders of the Company of a reorganization, merger, or consolidation with respect to which persons who were stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than fifty percent of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Company's then-outstanding securities;
 - (3) A liquidation or dissolution of the Company; or
 - (4) A sale of all or substantially all of the Company's assets.
- (g) "Code" means the Internal Revenue Code of 1986, as amended.
- (h) "Commissions" mean any cash-based commission compensation payable to a Participant.
- (i) "Company" means NIKE, Inc., any successor corporation and any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity or investment interest, as determined by the Company.
- (j) "Company Stock" means NIKE, Inc. Class B common stock.
- (k) "Compensation" means the Bonus, Commissions, Fees, and Salary that the Participant earns for services rendered to the Company. For purposes of Sections 6.2 and 7.2 only, "Compensation" also includes Long Term Incentive Payments.
- (l) "Consultant" means any person, including an advisor but excluding Directors, engaged by the Company to render services to the Company and designated by the Retirement Committee as eligible to participate in the Plan.
- (m) "Director" means a non-Employee member of the Board.
- (n) "Director's 1999 Transition Retirement Benefit" means the Actuarial Equivalent of the Director's Retirement Annuity as determined on September 1, 1999, divided by the fair market value of Company stock on September 1, 1999, and stated in units representing shares of Company Stock.
- (o) "Director's Retirement Annuity" means the projected annual retirement benefit payable to a Retired Director in the amount of eighteen thousand dollars (\$18,000), reduced proportionately for each year of service completed as a Director less than ten (but with no benefit if five or fewer years of service).
- (p) "Disability" means a Participant's long-term disability as defined in the Company's long-term disability plan for employees.
- (q) "Distributable Amount" means the amount credited to a Participant's Account.
- (r) "Distribution Event" means, with respect to each Participant, the Participant's termination of Service for any reason, including Retirement, death or Disability, or, if specified by the Participant, a specific date. A Participant's Distribution Event election shall be made in writing at such time, on such form and subject to such terms and conditions as the Retirement Committee may specify.
- (s) "Eligible Employee" means any Employee who is designated in writing as eligible to participate in the Plan by the Retirement Committee from among a select group of management or highly-compensated Employees of the Company.

- (t) "Employee" means a common law employee of the Company performing services regularly in the United States or, if not performing services regularly in the United States, a common law employee of the Company who is on U.S. payroll and participating in a Company-sponsored Global Transfer Program.
- (u) "Fees" means, (i) in the case of non-employee members of the Board, annual cash fees paid by the Company, including retainer fees, Retirement Committee fees and meeting fees, paid by the Company as compensation for serving on the Board, and (ii) in the case of any other non-employee service provider, the cash fees paid to such individual for services rendered to the Company.
- (v) "Fund" or "Funds" means one or more of the investment funds selected by the Retirement Committee pursuant to Section 3.3.
- (w) "Initial Election Period" means the 30-day period following the Eligible Employee's date of hire (or appointment to the Board or commencement of services as a Consultant, as applicable) or, if later, upon first becoming an Eligible Employee, Director or Consultant.
- (x) "Investment Return" means, for each Fund, an amount equal to the pre-tax rate of gain or loss on the assets of such Fund (net of applicable fund and investment charges) from one Valuation Date to the immediately following Valuation Date.
- (y) "Long Term Incentive Payment" means the amount payable to a Participant under the Long Term Incentive Plan, and also includes the amount payable to a Participant under the NIKE, Inc. 1990 Stock Incentive Plan pursuant to an award with terms similar to awards made under the Long Term Incentive Plan.
- (z) "Long Term Incentive Plan" means the Long Term Incentive Plan of NIKE, Inc., as amended from time to time.
- (aa) "Participant" means any Consultant, Director or Eligible Employee who elects to defer Compensation in accordance with Section 3.1.
- (bb) "Payment Commencement Date" means (i) in the case of distributions which are paid in the form of a cash lump sum payment under Sections 7.1(a) and 7.1(b), as soon as administratively practicable after the end of the calendar quarter during which the Participant terminates Service;
- (ii) in the case of distributions which are paid in the form of quarterly installments under Section 7.1(a), on or before the January 31 following the Plan Year during which the Participant terminates Service; and (iii) in the case of distributions on account of Plan termination, distributions otherwise payable under (i) or (ii) may be subject to earlier distribution at the discretion of the Committee.
- (cc) "Plan" means the NIKE, Inc. Deferred Compensation Plan set forth herein, now in effect, or as amended from time to time.
- (dd) "Plan Year" means the calendar year.
- (ee) "Predecessor Plans" means the NIKE, Inc. Supplemental Executive Savings Plan and the NIKE, Inc. Supplemental Executive Profit Sharing Plan.
- (ff) "Profit Sharing Plan" means the 401(k) Savings and Profit Sharing Plan for Employees of NIKE, Inc.
- (gg) "Retirement" means the Participant's termination of employment if at the time thereof the Participant has completed at least five Years of Service with the Company. "Years of Service" are measured based on years of vesting service under the Profit Sharing Plan.
- (hh) "Retired Director" or "Director's Retirement" means the cessation of a Director's services on the Board on or after age 65 with ten (10) years of service, but no later than age 72 if the Director commenced service as a Director after the Company's 1993 fiscal year.
- (ii) "Retirement Committee" means the Retirement Committee appointed by the Board to administer the Plan in accordance with Article VIII. Unless specified otherwise by the Board, the "Retirement Committee" shall mean the Retirement Committee established under the Profit Sharing Plan.
- (jj) "Salary" means the Employee's base salary for the Plan Year. Salary excludes any other form of compensation such as restricted stock, proceeds from stock options or stock appreciation rights, severance payments, moving expenses, car or other special allowance, adjustments for overseas employment other than the 12.5% transfer premium, or any other amounts included in an Eligible Employee's taxable income that is not compensation for services. Deferral elections shall be computed before taking into account any reduction in taxable income by salary reduction under Code Sections 125 or 401(k), or under this Plan.
- (kk) "Service" means performance of services for the Company as an Employee, Director or Consultant.
- (ll) "Valuation Date" means each date on which Accounts are valued. The Retirement Committee shall establish the Valuation Dates under the Plan. For purposes of calculating lump sum payments, the Valuation Date means the last day of the calendar quarter preceding the Payment Commencement Date. For purposes of calculating quarterly installment payments, the Valuation Date means the December 31 immediately preceding the year in which the installments are paid.

ARTICLE II

PARTICIPATION

2.1 Participation

An Eligible Employee, Director or Consultant shall become a Participant in the Plan by electing to defer a portion of his or her Compensation in accordance with Section 3.1.

ARTICLE III

DEFERRAL ELECTIONS

3.1 Elections to Defer Compensation

(a) Initial Election Period. Each Eligible Employee, Director or Consultant may elect to defer Compensation by filing an election with the Retirement Committee that conforms to the requirements of this Section 3.1, on a form provided by the Retirement Committee, no later than the last day of his or her Initial Election Period. Until modified, Deferral Elections filed with respect to the 1998 Plan Year shall supersede any and all prior deferral elections made in connection with the Predecessor Plans.

(b) General Rule. The amount of Compensation that an Eligible Employee, Director or Consultant may elect to defer is as follows:

- (1) Any whole percentage of Salary up to 100%;
- (2) Any whole percentage of Bonus up to 100%;
- (3) Any whole percentage of Commissions up to 100%;
- (4) Any whole percentage of Fees up to 100%;

provided, however, that no election under this Section 3.1 or Section 3.4 shall be effective to reduce the Compensation and Long Term Incentive Payments paid to an Eligible Employee to an amount that is less than the amount necessary to pay applicable employment taxes (e.g., FICA, hospital insurance) payable with respect to amounts deferred hereunder, amounts necessary to satisfy any other benefit plan withholding obligations, any resulting income taxes payable with respect to Compensation that cannot be so deferred, and any amounts necessary to satisfy any wage garnishment or similar type obligations.

(c) Minimum Deferrals. For each full Plan Year during which the Eligible Employee is a Participant, the minimum dollar amount that may be deferred under this Section 3.1 is \$5,000 (\$1,000 in the case of Directors and Consultants).

(d) Effect of Initial Election. An election to defer Salary, Commissions or Fees made during an Initial Election Period shall be effective as to Salary, Commissions, and Fees earned beginning with the first pay period beginning after the Initial Election Period. Employees who first became Eligible Employees during a Plan Year may make an election to defer Bonuses payable in subsequent Plan Years by making deferral elections in accordance with subsections 3.1(e) and (f).

(e) Duration of Deferral Election. A Compensation deferral election made under paragraph (a) or paragraph (f) of this Section 3.1 shall remain in effect, notwithstanding any change in the Participant's Compensation until modified or terminated as provided herein. A Participant may irrevocably elect at any time to reduce the percentage to be deferred from Salary, Commissions, and Fees earned in the remainder of the Plan Year to zero. Subject to the minimum deferral requirement of subsection (c) of this Section, the percentage of Salary, Bonus, Commissions and Fees designated by the Participant for deferral may be modified by filing a new election, in accordance with the terms of this Section, with the Committee not later than December 15 (or such earlier date as the Committee may establish) of the year immediately preceding the beginning of the Plan Year for which the election shall be in effect. A Participant's deferral election shall terminate with respect to future Compensation upon the Participant's ceasing to be an Eligible Employee, Director or Consultant.

(f) Elections Other Than Elections During the Initial Election Period. Any Eligible Employee, Director or Consultant who fails to elect to defer Compensation during his or her Initial Election Period may subsequently become a Participant by filing an election, on a form provided by the Retirement Committee, to defer Compensation as described in paragraph (b) above. An election to defer Compensation must be filed no later than December 15 (or such earlier date as the Retirement Committee may establish) and will be effective for Salary, Commissions and Fees earned beginning with the first pay period beginning on and after the beginning of the next succeeding Plan Year and for any Bonus payable in the next succeeding Plan Year.

(g) Director's 1999 Transition Election. Any Director as of September 1, 1999, shall have made an election on or before September 24, 1999, to

either remain eligible for the Director's Retirement Annuity or to convert such annuity to the Director's 1999 Transition Retirement Benefit, in either case such benefit not payable until the Director's Retirement. In the event an electing Director converted the Director's Retirement Annuity, such election shall be irrevocable and paid as provided herein.

3.2 Company Contributions

(a) Eligibility. An Eligible Employee who qualifies for a contribution for a Plan Year under the Profit Sharing Plan shall be eligible for a Company contribution under this Plan for such Plan Year if he or she either (i) makes a Deferral Election under 3.1 for the Plan Year, or (ii) receives compensation under the Profit Sharing Plan exceeding the Code Section 401(a)(17) limit of \$200,000 (as indexed) for its Plan Year, or both.

(b) Company Contribution. An Eligible Employee who is eligible under subsection 3.2(a) shall be credited with a "Restoration Amount" for each Plan Year. "Restoration Amount" means the amount by which the Eligible Employee's allocated share of the "Profit Sharing Contribution" (as defined in the Profit Sharing Plan) for the corresponding Plan Year under the Profit Sharing Plan would be higher if calculated on the basis of Compensation as defined in this Plan (i) determined before any reduction for deferral of Compensation under this Plan; and (ii) without regard to the Code Section 401(a)(17) limit.

(c) Discretionary Company Contributions. In addition to Company contributions in accordance with Section 3.2(b), the Company may, in its sole discretion, make discretionary contributions to the Accounts of one or more Participants at such times and in such amounts as the Board or the Retirement Committee may determine.

(d) Director's Retirement Contribution. In addition to any Company contributions made in accordance with Sections 3.2 (a)-(c), the Company shall credit to the Accounts of any electing Director the number of shares of Company Stock equivalent to the electing Director's 1999 Transition Retirement Benefit. The Company may contribute such shares corresponding to the total of all the electing Director's benefits, at such time and in such amount as the Board or the Committee may determine, provided that any shares so contributed shall remain in the name of the Company (or any trust established by the Company for this purpose), and shall be its sole property in which no electing Director shall have any separable interest.

3.3 Investment Elections

(a) Hypothetical Investment Funds. The Retirement Committee may, in its discretion, provide each Participant with a list of investment Funds available for hypothetical investment, and the Participant may designate, in a manner specified by the Retirement Committee, one or more Funds that his or her Account will be deemed to be invested in for purposes of determining the amount of earnings to be credited to that Account. The Retirement Committee may, from time to time, in its sole discretion select a commercially available fund to constitute the Fund actually selected. The Investment Return of each such commercially available fund shall be used to determine the amount of earnings to be credited to Participants' Accounts under Section 4.1(e).

(1) Deemed Investment Elections. In making the designation pursuant to this Section 3.3, the Participant may specify that all or any 1% multiple of his or her Account be deemed to be invested in one or more of the Funds offered by the Retirement Committee. Subject to such limitations and conditions as the Retirement Committee may specify, a Participant may change the designation made under this Section 3.3 in such manner and at such time or times as the Retirement Committee shall specify. If a Participant fails to elect a Fund under this Section 3.3, or if the Retirement Committee shall not provide Participants with a list of Funds pursuant to this Section 3.3, the Participant shall be deemed to have elected a money market fund.

(2) No Company Obligation. The Company may, but need not, acquire investments corresponding to those designated by the Participants hereunder, and it is not under any obligation to maintain any investment it may make. Any such investments, if made, shall be in the name of the Company, and shall be its sole property in which no Participant shall have any interest.

(b) Director's Plan Investments. A 1999 Director's Transition Retirement Plan Subaccount shall be maintained on behalf of each Director participating in the Plan. The entirety of an electing Director's 1999 Transition Retirement Benefit shall be maintained in the 1999 Transition Retirement Plan Subaccount, reflecting the number of shares of Company Stock in which the electing Director is vested and entitled to under the Plan as his or her 1999 Transition Retirement Benefit. The subaccount balance shall be expressed in units (denominated in shares of Company Stock). The number of units reflected in an electing Director's 1999 Transition Retirement Benefit subaccount shall be appropriately adjusted periodically to reflect any dividend, split, split-up or any combination or exchange, however, accomplished, with respect to the shares of Company Stock represented by such units.

3.4 Deferral of Long Term Incentive Payments.

(a) Deferral Permitted. A Participant who is eligible for a potential Long Term Incentive Payment may elect to defer receipt of the Long Term Incentive Payment under the provisions of this Section 3.4. The deferral election shall be expressed as a percentage of the potential Long Term Incentive Payment, in a whole percentage between zero and 100.

(b) Timing of Deferral-General Rule. Long Term Incentive Payments generally are made in August of each year, based on actual financial performance compared against targets established by the Company for the Company's three preceding fiscal years. In order to defer anticipated

Long Term Incentive Payments under this Plan, a Participant must make a deferral election no later than the December 15 (or such earlier date as the Committee may establish) of the second calendar year preceding the calendar year in which the Long Term Incentive Payment (if any) is payable. For example, for the Long Term Incentive Payment that is anticipated to be paid in August 2004, the deferral election would have to be made no later than December 15, 2002.

(c) Timing of Deferral-Special Rule for First Plan Year. For Long Term Incentive Payments that are anticipated to be made in August 2003, the deferral election must be made no later than September 13, 2002.

(d) Form of Deferral. In order to defer Long Term Incentive Payments into this Plan, the Participant must irrevocably agree under the Long Term Incentive Plan to receive the Long Term Incentive Payment in the form of cash and not as Company stock.

(e) Duration of Deferral Election. A deferral election under this Section 3.4 shall remain in effect from year to year until modified or terminated as provided herein. The percentage of Long Term Incentive Payments designated by the Participant for deferral may be modified by filing a new election, in accordance with the terms of this Section 3.4, with the Committee not later than December 15 (or such earlier date as the Committee may establish) of the second calendar year preceding the beginning of the Plan Year for which the election shall be in effect.

(f) Irrevocable Election. A Participant's election to defer receipt of a Long Term Incentive Payment under this Plan is irrevocable with respect to the Long Term Incentive Payment to which the deferral election relates.

(g) Administration. Long Term Incentive Payments deferred under this section shall be accounted for as part of the Participant's Account and subject to the investment, distribution, and other provisions applicable to such Accounts.

ARTICLE IV

ACCOUNTS

4.1 Participant Accounts

The Retirement Committee shall establish and maintain an Account for each Participant under the Plan. Each Participant's Account may be further divided into separate subaccounts ("investment fund subaccounts"), corresponding to investment Funds elected by the Participant pursuant to Section 3.3 or as otherwise determined by the Retirement Committee to be necessary or appropriate for proper Plan administration. A Participant's Account shall be credited as follows:

(a) Salary, Commissions and Fees Deferrals. As soon as practicable following the end of each applicable pay period, the Retirement Committee shall credit the investment fund subaccounts of the Participant's Account with an amount equal to Salary, Commissions or Fees deferred by the Participant during each pay period in accordance with the Participant's election; that is, the portion of the Participant's deferred Salary, Commissions or Fees that the Participant has elected to be deemed to be invested in a certain type of investment Fund shall be credited to the investment fund subaccount corresponding to that investment Fund.

(b) Bonus Deferrals. As soon as practicable after each Bonus or partial Bonus would have been paid, the Retirement Committee shall credit the investment fund subaccounts of the Participant's Account with an amount equal to the portion of the Bonus deferred by the Participant's election; that is, the portion of the Participant's deferred Bonus that the Participant has elected to be deemed to be invested in a certain type of investment Fund shall be credited to the investment fund subaccount corresponding to that investment Fund.

(c) Company Contribution. As soon as practicable after the last day of the Plan Year or such earlier time or times as the Retirement Committee may determine, the Retirement Committee shall credit the investment fund subaccounts of the Participant's Account with an amount equal to the portion, if any, of any Company contribution made to or for the Participant's benefit in accordance with Section 3.2; that is, the portion of the Participant's Company contribution, if any, that the Participant has elected to be deemed to be invested in a certain type of investment Fund shall be credited to the investment fund subaccount corresponding to that investment Fund.

(d) Long Term Incentive Payments. As soon as practicable after Long Term Incentive Payments are declared and payable, the Committee shall credit the investment fund subaccounts of the Participant's Account with an amount equal to the portion of the Long Term Incentive Payment deferred by the Participant's election under Section 3.4.

(e) Investment Returns. On each Valuation Date, each investment fund subaccount of a Participant's Account shall be adjusted for deemed Investment Returns in an amount equal to that determined by multiplying the balance credited to such investment fund subaccount as of the last day of the preceding Valuation Date by the Investment Return for the corresponding Fund selected by the Company.

ARTICLE V

VESTING

5.1 Account

(a) Compensation Deferrals. A Participant's Account attributable to Compensation deferred by a Participant pursuant to the terms of this Plan, together with any amounts credited to the Participant's Account under Section 4.1(e) with respect to such deferrals, shall be 100% vested at all times.

(b) Company Contributions. Unless specified otherwise by the Board or the Retirement Committee, the value of a Participant's Account attributable to any Company contributions pursuant to Section 3.2, together with any amounts credited to the Participant's Account under Section 4.1(e) with respect to such amounts, shall be vested in the same proportion as the Participant's account in the Profit Sharing Plan.

(c) Director's 1999 Transition Retirement Plan Investments. An electing Director's 1999 Transition Retirement Benefit, together with any earnings thereon, shall be 100 percent vested at all times.

(d) Long Term Incentive Payments. The portion of a Participant's Account attributable to Long Term Incentive Payments deferred by the Participant pursuant to Section 3.4, together with any investment returns credited to the Participant's Account under Section 4.1(e) with respect to such amounts, shall be 100 percent vested at all times.

ARTICLE VI

GENERAL DUTIES

6.1 Trustee Duties

The Trustee shall manage, invest and reinvest the Trust Fund as provided in the Trust Agreement. The Trustee shall collect the income on the Trust Fund, and make distributions therefrom, all as provided in this Plan and in the Trust Agreement.

6.2 Company Contributions

While the Plan remains in effect, the Company shall make contributions to the Trust Fund at least once each quarter. As soon as practicable after the close of each Plan quarter, the Company shall make an additional contribution to the Trust Fund to the extent that previous contributions to the Trust Fund for the current Plan quarter are less than the total of the Compensation deferrals made by each Participant plus Company contributions, if any, accrued as of the close of the current Plan quarter. The Trustee shall not be liable for any failure by the Company to provide contributions sufficient to pay all accrued benefits under the Plan in accordance with the terms of this Plan.

6.3 Department of Labor Determination

In the event that any Participants are found to be ineligible, that is, not members of a select group of management or highly compensated employees, according to a determination made by the Department of Labor, the Retirement Committee shall take whatever steps it deems necessary, in its sole discretion, to equitably protect the interests of all Participants.

ARTICLE VII

DISTRIBUTIONS

7.1 Distribution of Deferred Compensation - Termination of Service.

(a) Retirement; Disability; Death.

(1) Form of Payment. In the event a Participant's Service terminates as a result of Retirement, long-term disability (as defined in the Company's long-term disability plan for employees) or death, and provided further that such Participant does not return to Service prior to the Payment Commencement Date, the Participant's Distributable Amount shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 15 years beginning on his or her Payment Commencement Date. If the Participant's Distributable Amount is paid in installments, the Participant's Account value shall continue to be adjusted for investment returns pursuant to Section 4.1(e) of the Plan and the installment amount shall be adjusted as of each December 31 for installments payable in the following year to reflect gains and losses until all amounts credited to the Participant's Account under the Plan have been distributed. Notwithstanding the foregoing, a Participant may, in lieu of quarterly installments over 15 years, elect a cash lump sum payment or quarterly installments over five or 10 years by filing an election with the Retirement Committee within 30 days of the date he or she first becomes a Participant.

(2) Change in Form. A Participant may change his or her form of distribution under this subsection 7.1(a) provided that his or her change is filed with the Retirement Committee at least one year prior to his or her Payment Commencement Date; otherwise, the most recent distribution election made by the Participant one (1) or more years prior to the Payment Commencement Date shall govern.

(3) Small Benefit Amounts. Notwithstanding the foregoing, if the Participant's Distributable Amount is \$25,000 or less, the Distributable Amount shall automatically be distributed in the form of a cash lump sum on the Participant's Payment Commencement Date.

(4) Section 162(m). Amounts payable pursuant to this subsection 7.1(a) shall be subject to the limitation on payout under Section 7.5.

(b) Other Termination. In the case of a Participant whose Service with the Company terminates for any reason other than Retirement, long-term disability, or death, the Participant's Distributable Amount shall be paid to the Participant in the form of a cash lump sum on the Participant's Payment Commencement Date, provided that no such distribution shall occur in the event the Participant returns to Service prior to the Payment Commencement Date.

(c) Death While Receiving Benefits. If the Participant is in pay status at the time of death, the Beneficiary shall be paid the remaining quarterly installments as they come due.

7.2 Scheduled and Unscheduled Withdrawals

(a) Scheduled Withdrawals. A Participant may, in connection with his or her Compensation deferral election for a Plan Year, specify a withdrawal (a "Scheduled Withdrawal") of all of his or her Account attributable to Compensation deferred for such Plan Year, subject to the following restrictions:

(1) Three Year Rule. A Participant's Scheduled Withdrawal election must specify a Scheduled Withdrawal date that is at least three years from the date the election is received by the Company.

(2) Procedure. The election to take a Scheduled Withdrawal shall be made by filing a form provided by and filed with the Retirement Committee.

(3) Amount Distributable. The amount payable to a Participant in connection with a Scheduled Withdrawal shall in all cases be 100 percent of the Compensation deferred for the Plan Year to which the Scheduled Withdrawal election applies, together with any earnings credited to such deferrals pursuant to Section 4.1(e), determined as of the Valuation Date immediately preceding the Payment Commencement Date, provided that:

(A) at the time of making a deferral election under Article III, a Participant may make a different Scheduled Withdrawal election for Long Term Incentive Payments than for other forms of Compensation deferred for the Plan Year; and

(B) no portion of the Account attributable to Company contributions described in Section 3.2, if any, shall be eligible for Scheduled Withdrawal.

(4) Postponement. A Participant may, at least one year prior to a Scheduled Withdrawal date, revoke his or her Scheduled Withdrawal election in favor of a later Scheduled Withdrawal date that is at least one year later, provided that a Participant may not postpone a Scheduled Withdrawal more than twice.

(5) Form. Subject to Section 7.5, payment of a Scheduled Withdrawal shall be made in a single lump sum as soon as practicable after the Scheduled Withdrawal date.

(6) Effect of Termination. A Participant's Scheduled Withdrawal election shall become void and of no effect upon termination of the Participant's employment with the Company for any reason before the Participant's scheduled withdrawal date. In such event, the distribution provisions of Section 7.1 shall apply.

(b) Unscheduled Withdrawals. Participants may request a withdrawal of amounts from their Accounts attributable to Compensation deferrals prior to termination of Service (an "Unscheduled Withdrawal") or a Scheduled Withdrawal. Upon receiving an Unscheduled Withdrawal request, the Retirement Committee shall determine, in its discretion as applied in a uniform and nondiscriminatory manner, whether to permit any such Unscheduled Withdrawal and the amount, if any, to be withdrawn, subject to the following restrictions:

(1) Procedure. The election to take an Unscheduled Withdrawal shall be made by filing a form provided by and filed with the Retirement Committee.

(2) Amount. The amount payable to a Participant in connection with an Unscheduled Withdrawal shall in all cases equal 90% of the amount requested by the Participant or, if lesser, 90% of the Unscheduled Withdrawal amount approved by the Retirement Committee; provided, however, that the maximum amount payable to a Participant in connection with an Unscheduled Withdrawal shall be 90% of the Distributable Amount as of the Valuation Date immediately preceding the date of the Unscheduled Withdrawal, and provided further, that no portion of the amount attributable to Company contributions pursuant to Section 3.2, if any, shall be eligible for an Unscheduled Withdrawal.

(3) Forfeiture. If a Participant receives an Unscheduled Withdrawal, the remaining portion of the requested or approved amount, as applicable (i.e., 10% of such amount), shall be permanently forfeited and the Company shall have no obligation to the Participant or his Beneficiary with

respect to such forfeited amount. The Company may use the forfeitures to pay Plan expenses, to reduce future Company contributions, or for any other legal purpose, consistent with the terms of the Trust.

(4) Suspension of Participation. If a Participant receives an Unscheduled Withdrawal, the Participant shall be ineligible to Participate in the Plan for the balance of the Plan Year in which the Unscheduled Withdrawal occurs and the following Plan Year.

(5) Limit on Unscheduled Withdrawals. A Participant shall be limited to two Unscheduled Withdrawals during the entire period of his or her Plan participation.

(6) Partial Unscheduled Withdrawals. An Unscheduled Withdrawal pursuant to this Section 7.2 of less than 90% of the Participant's Distributable Amount shall be made pro rata from his or her assumed investments according to the balances in such investments. Subject to the foregoing and subject to the Retirement Committee's approval, payment of any amount with respect to which a Participant has filed a request under this Section 7.2 shall be made in a single cash lump sum as soon as practicable after the Unscheduled Withdrawal election is approved.

7.3 Unforeseeable Emergency

The Retirement Committee may, pursuant to rules adopted by it and applied in a uniform manner, accelerate the date of distribution of a Participant's Account because of an Unforeseeable Emergency at any time. "Unforeseeable Emergency" shall mean an unforeseeable, severe financial condition resulting from (a) a sudden and unexpected illness or accident of the Participant or his or her dependent (as defined in Section 152(a) of the Code); (b) loss of the Participant's property due to casualty; or (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, but which may not be relieved through other available resources of the Participant, as determined by the Retirement Committee in accordance with uniform rules adopted by it. Unless the Retirement Committee, in its discretion, determines otherwise, distribution pursuant to this subsection of less than the Participant's entire interest in the Plan shall be made pro rata from his or her assumed investments according to the balances in such investments. Subject to the foregoing, payment of any amount with respect to which a Participant has filed a request under this subsection shall be made in a single cash lump sum as soon as practicable after the Retirement Committee approves the Participant's request.

7.4 Change of Control

Notwithstanding anything in this Article 7 to the contrary, including, but not limited to, Section 7.5 below, the Distributable Amount shall be paid to each Participant, or to the Beneficiary of each deceased Participant, within 30 days after the date of a Change of Control. Such amount shall be paid in such form as elected by the Participant with respect to a distribution by reason of the Participant's Retirement or, if no such election has been filed, in a lump sum.

7.5 Section 162(m) Limitation

If the Retirement Committee determines in good faith prior to a Change of Control that there is a reasonable likelihood that all or any portion of any payment of benefits under this Article 7 to a Participant would not be deductible for federal income tax purposes by the Company because of a limitation on the total amount of the Participant's deductible compensation from the Company, including any other such compensation already paid to the Participant earlier in the same fiscal year of the Company, the following shall apply:

(a) Deferred Payment. Payment of the non-deductible amount shall be deferred until the first day of the following fiscal year of the Company;

(b) Additional Deferral. If the amount deferred under subsection (a) would exceed the limitation of the total amount of the Participant's deductible compensation from the Company for the following fiscal year, the excess shall be deferred to the first day of the succeeding fiscal year in which the deductibility of compensation paid or payable to the Participant will not be so limited, subject to subsection (c);

(c) Limit on Deferral. In no event shall any payment be deferred under this Section 7.5 more than three years from the date scheduled for payment under this Section 7;

(d) Investment Returns. Adjustment for earnings shall continue to be applied under Section 4.1(e) during the period of deferral under this Section 7.5.

7.6 Inability To Locate Participant

In the event that the Retirement Committee is unable to locate a Participant or Beneficiary within two years following the Participant's Distribution Event, the amount allocated to the Participant's Deferral Account shall be forfeited. If, after such forfeiture, the Participant or Beneficiary later claims such benefit, such benefit (calculated immediately prior to the forfeiture) shall be reinstated without interest or earnings.

ARTICLE VIII

ADMINISTRATION

8.1 Retirement Committee

A Retirement Committee shall be appointed by, and serve at the pleasure of, the Board. The number of members comprising the Retirement Committee shall be determined by the Board, which may from time to time vary the number of members. A member of the Retirement Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Retirement Committee shall be filled promptly by the Board.

8.2 Retirement Committee Action

The Retirement Committee shall act at meetings by affirmative vote of a majority of the members of the Retirement Committee. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to such action, a written consent to the action is signed by all members of the Retirement Committee and such written consent is filed with the minutes of the proceedings of the Retirement Committee. A member of the Retirement Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The chairman or any other member or members of the Retirement Committee designated by the chairman may execute any certificate or other written direction on behalf of the Retirement Committee.

8.3 Powers and Duties of the Retirement Committee

(a) General. The Retirement Committee, on behalf of the Participants and their Beneficiaries, shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (1) To select the funds to be the Funds in accordance with Section 3.3 hereof;
- (2) To construe and interpret the terms and provisions of this Plan;
- (3) To amend, modify, suspend or terminate the Plan in accordance with Section 9.4;
- (4) To compute and certify the amount and kind of benefits payable to Participants and their Beneficiaries and to direct the Trustee as to the distribution of Plan assets;
- (5) To maintain all records that may be necessary for the administration of the Plan;
- (6) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- (7) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof; and
- (8) To appoint a plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Retirement Committee may from time to time prescribe.

8.4 Construction and Interpretation

The Retirement Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, which interpretation or construction shall be final and binding on all parties, including but not limited to the Company and any Participant or Beneficiary. The Retirement Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

8.5 Information

To enable the Retirement Committee to perform its functions, the Company shall supply full and timely information to the Retirement Committee on all matters relating to the Compensation of all Participants, their death or other cause of termination, and such other pertinent facts as the Retirement Committee may reasonably require.

8.6 Compensation, Expenses and Indemnity

- (a) The members of the Retirement Committee shall serve without compensation for their services hereunder.

(b) The Retirement Committee is authorized at the expense of the Company to employ such legal counsel as it may deem advisable to assist in the performance of its duties hereunder. Expenses and fees in connection with the administration of the Plan shall be paid by the Company.

(c) To the extent permitted by applicable state law, the Company shall indemnify and save harmless the Retirement Committee and each member thereof, the Board and any delegate of the Retirement Committee who is an employee of the Company against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under state law.

8.7 Quarterly Statements

Under procedures established by the Retirement Committee, a Participant shall receive a statement with respect to such Participant's Account on a quarterly basis.

ARTICLE IX

CLAIMS PROCEDURE

9.1 Submission of Claim.

Benefits shall be paid in accordance with the provisions of this Plan. The Participant, or any person claiming through the Participant, ("Claiming Party") shall make a written request for benefits under this Plan, mailed or delivered to the Retirement Committee. Such claim shall be reviewed by the Retirement Committee or its delegate.

9.2 Denial of Claim.

If a claim for payment of benefits is denied in full or in part, the Retirement Committee or its delegate shall provide a written notice to the Claiming Party within ninety (90) days setting forth: (a) the specific reasons for denial; (b) any additional material or information necessary to perfect the claim; (c) an explanation of why such material or information is necessary; and (d) an explanation of the steps to be taken for a review of the denial. A claim shall be deemed denied if the Retirement Committee or its delegate does not take any action within the aforesaid ninety (90) day period).

9.3 Review of Denied Claim.

If the Claiming Party desires review of a denied claim, the Claiming Party shall notify the Retirement Committee or its delegate in writing within sixty (60) days after receipt of the written notice of denial. As part of such written request, the Claiming Party may request a review of the Plan document or other pertinent documents, may submit any written issues and comments, and may request an extension of time for such written submission of issues and comments.

9.4 Decision upon Review of Denied Claim.

The decision on the review of the denied claim shall be rendered by the Retirement Committee within sixty (60) days after receipt of the request for review. The decision shall be in writing and shall state the specific reasons for the decision, including reference to specific provisions of the Plan on which the decision is based.

ARTICLE X

MISCELLANEOUS

10.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interests in any specific property or assets of the Company. No assets of the Company shall be held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. Any and all of the Company's assets shall be, and remain, the general unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors.

10.2 Restriction Against Assignment

The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Account shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary,

or successors in interest, nor shall a Participant's Account be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Retirement Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Retirement Committee shall direct.

10.3 Withholding

There shall be deducted from each payment made under the Plan all taxes, which are required to be withheld by the Company in respect to such payment. The Company shall have the right to reduce any payment by the amount of cash sufficient to provide the amount of said taxes.

10.4 Amendment, Modification, Suspension or Termination

The Retirement Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination shall have any retroactive effect to reduce any amounts allocated to a Participant's Account, provided that a termination or suspension of the Plan or any Plan amendment or modification that will significantly increase costs to the Company shall be approved by the Board. In the event that this Plan is terminated, the timing of the disposition of the amounts credited to a Participant's Account shall occur in accordance with Section 7.1, subject to earlier distribution at the discretion of the Retirement Committee.

10.5 Governing Law

This Plan shall be construed, governed and administered in accordance with the laws of the State of Oregon.

10.6 Receipt or Release

Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Retirement Committee and the Company. The Retirement Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

10.7 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Retirement Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Retirement Committee may direct that such payment be made to any person found by the Retirement Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Retirement Committee and the Company.

10.8 No Employment Rights

Participation in this Plan shall not confer upon any person any right to be employed by the Company or any other right not expressly provided hereunder.

10.9 Headings, etc. Not Part of Agreement.

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

10.10 Tax Liabilities from Plan.

If, due to a change in applicable law or regulations or enforcement activity by the Internal Revenue Service, all or any portion of a Participant's benefit under this Plan generates a state or federal income tax liability to the Participant prior to receipt, the provision or provisions of the Plan that would generate such taxation shall be considered null and void to the extent, and only to the extent, necessary to avoid the tax liability. If, notwithstanding the actions taken to avoid the tax liability, a tax liability is generated before a Participant is eligible to receive a Plan benefit, each affected Participant may petition the Retirement Committee for a distribution of funds sufficient to meet such liability (including additions to tax, penalties and interest). Upon the grant of such a petition, which grant shall not be unreasonably withheld, the Company shall distribute to the Participant immediately available funds in an amount equal to that Participant's federal, state and local tax liability associated with such taxation, which liability shall be measured by using that Participant's then current highest federal, state and local marginal tax rate, plus the rates or amounts for the applicable additions to tax, penalties and interest. At the discretion of the Company, this distribution may or may not include an additional amount to "gross up" the tax liability distribution to include all applicable taxes on the tax liability distribution and the grossed up amount. If the petition is granted, the tax liability distribution (including gross- up) shall be made as soon as practicable after the date when the Participant's petition is granted. Such a distribution shall reduce the benefits to be paid under Article VII of the Plan.

IN WITNESS WHEREOF, the Company has caused this document to be executed by its duly authorized officer on this ____ day of

_____, 2002.

NIKE, INC.

By:

Title:

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

| | Nine Months Ended February 28, | |
|---|-----------------------------------|----------|
| | 2003 | 2002 |
| | (in millions) | |
| Net income | \$227.8 | \$ 454.9 |
| Income taxes | 257.2 | 242.3 |
| Cumulative effect of accounting change | 266.1 | 5.0 |
| | 751.1 | 702.2 |
| Add fixed charges | | |
| Interest expense (A) | 33.0 | 37.4 |
| Interest component of leases (B) | 45.4 | 39.4 |
| | 78.4 | 76.8 |
| Earnings before income taxes and fixed charges (C) | \$828.7 | \$779.0 |
| | ===== | ===== |
| Ratio of earnings to total fixed charges | 10.6 | 10.1 |
| | ===== | ===== |

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

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

EXHIBIT 99:

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the following certifications are being made to accompany the Registrant's quarterly report on Form 10-Q for the fiscal quarter ended February 28, 2003:

Certification of Chief Executive Officer

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

- (i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended February 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 14, 2003

/S/ PHILIP H. KNIGHT

Philip H. Knight
Chief Executive Officer

Certification of Chief Financial Officer

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

- (i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended February 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 14, 2003

/S/ DONALD W. BLAIR

Donald W. Blair
Chief Financial Officer

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