

NIKE, Inc.
1981 Annual Report



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NIKE, Inc. designs, manufactures, and markets a wide variety of athletic footwear and apparel for competitive and recreational uses.

1981 marked another impressive year for NIKE. With 1981 revenues of nearly \$458 million, NIKE is clearly the leader in the branded, high quality, athletic shoe industry in the United States.

In 1972, the first year in which athletic shoes were sold under the NIKE trademark, revenues were less than \$2 million. Since that time, revenues have grown at a compound annual rate of approximately 85%, while net income has grown at nearly 100% per year.

Through ongoing product innovation combined with an aggressive marketing program, NIKE has raced ahead of its competitors and attained its premier position in the industry.



"The NIKE name and Swoosh stripe are registered trademarks of NIKE, Inc. or its subsidiaries."

Highlights

Selected Financial Data

	1981	1980	1979	1978	1977
<i>Year Ended May 31:</i>	<i>(in thousands, except per share data)</i>				
Revenues	\$457,742	\$269,775	\$149,830	\$71,001	\$28,711
Net income	25,955	12,505	9,723	3,856	1,522
% of sales	5.7	4.6	6.5	5.4	5.3
Per common share	1.52	.77	.58	.22	.09
Increase in working capital	45,063	16,358	7,915	2,706	1,437
<i>At May 31:</i>					
Working capital	\$74,687	\$29,624	\$13,266	\$5,351	\$2,645
Total assets	230,289	134,615	79,826	38,964	14,244
Long-term debt	8,611	11,268	2,547	1,216	691
Redeemable Preferred Stock	300	300	300	300	300
Common shareholders' equity	83,021	28,756	16,281	6,588	2,759

Market Prices of Common Shares

The Company's Class B Common Stock began trading on December 2, 1980 in the over-the-counter market under the NASDAQ symbol NIKE. At year-end there were six security dealers making a market in the stock and there were approximately 2,500 shareholders of record. The high and low bid and asked prices since December 2, 1980 are summarized below:

	Bid		Asked	
	High	Low	High	Low
Quarter Ended February 28, 1981	23 1/4	17 1/2	24 1/2	18
Quarter Ended May 31, 1981	23	17	23 1/2	17 1/2

Quarterly Financial Data

	Quarter Ended			
	May 31	February 28	November 10	August 11
<i>Year Ended May 31, 1981:</i>	<i>(in thousands, except per share data)</i>			
Revenues	\$134,784	\$109,905	\$109,970	\$103,083
Gross profit	37,930	29,553	32,452	29,674
Net income	7,335	5,553	6,521	6,546
Net income per common share	.41	.31	.40	.41
<i>Year Ended May 31, 1980:</i>				
Revenues	\$92,626	\$66,711	\$54,812	\$55,626
Gross profit	26,017	16,382	14,136	16,557
Net income	4,755	1,971	2,118	3,661
Net income per common share	.29	.12	.13	.23

To Our Shareholders:



This publication marks a milestone in NIKE's history—our first Annual Report as a publicly owned company.

I have made an effort to review the significant events of the past year, as well as give you some insight into the pace and character of NIKE.

For the last few years, many employees and shareholders have asked the question: "What can we do next year that could possibly be as exciting as last year?"

Everyone at NIKE responded by making 1981 as exciting a year as a company can have.

It started in August with the settlement of our four-year dispute with U.S. Customs regarding retroactive duties.

Our initial public offering of common stock followed and was a success during a period when the Dow Jones Industrial Average was in the process of dropping nearly 100 points.

While increasing U.S. production, we began production in four new countries: Thailand, the Philippines, Hong Kong, and Malaysia. Also, we began the long process of establishing the People's Republic of China as a source of production.

We opened a sales office in Amsterdam, The Netherlands; created a subsidiary, NIKE International, Ltd., to handle international sales; expanded the number of foreign distributors; and

John McEnroe, winner of the U.S. Open in 1980 and Wimbledon in 1981.

This keyboard and CRT are connected to the CAD/CAM computer. The image on the screen is an Air-Sole mold.

contracted to establish our first wholly owned foreign factory 30 miles outside of Dublin, Ireland. Foreign revenues grew 56 percent to \$25.8 million as we opened up this whole new area of business.

Our customer accounts increased from 7,000 to 8,000; the product line expanded from approximately 100 models to 140 models; and the number of sales representatives increased from 105 to 130. In December, we moved into a new 335,000 square foot warehouse in Greenland, New Hampshire to complement the 700,000 square feet of warehouse space in Portland, Oregon, and in May we began negotiations for our first midwest warehouse in Memphis, Tennessee.

Our apparel program was just getting underway in 1980 and, with a limited product line, finished the year with revenues of \$8.1 million. As we close the ledger on 1981, we have developed a solid line of high quality athletic apparel which resulted in revenues more than quadrupling to \$33.1 million.

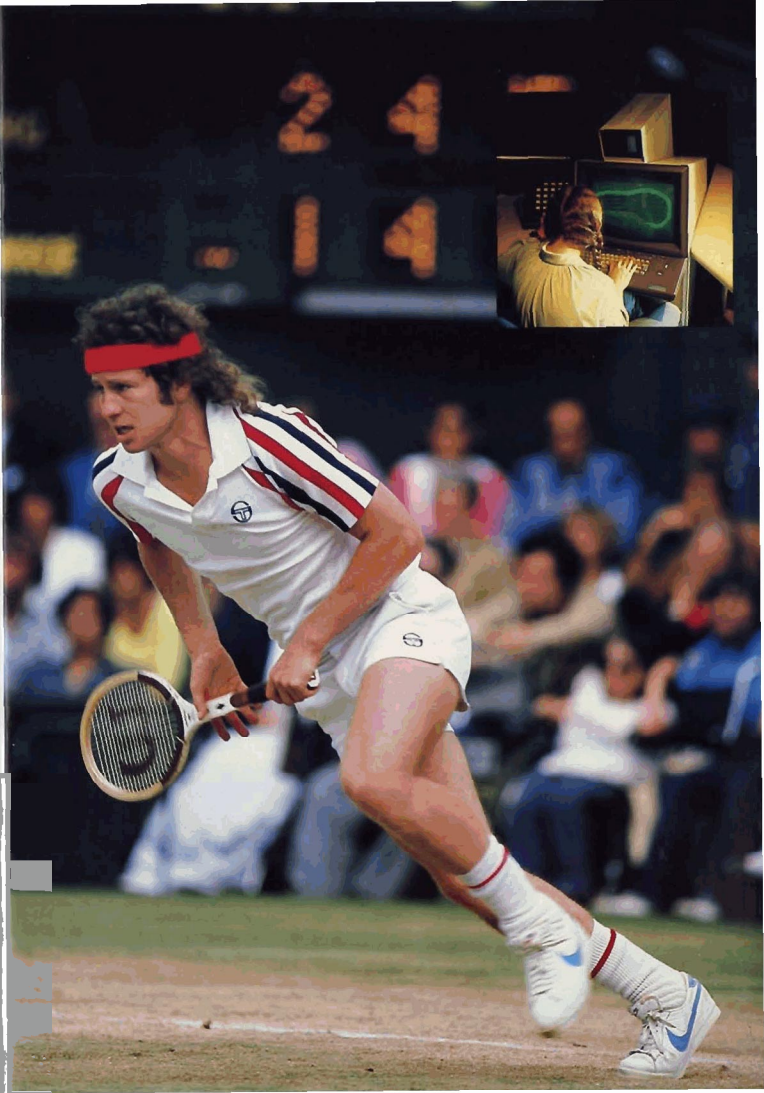
We were thrilled by performances in NIKE shoes: Alberto Salazar's win at the New York Marathon; John McEnroe's court play at Wimbledon; Mike Schmidt in the World Series; Steve Carlton throughout the '80 baseball season; Carl Lewis' 28 foot long jump; and comeback Man-of-the-Year, Jim Plunkett, in the Super Bowl.

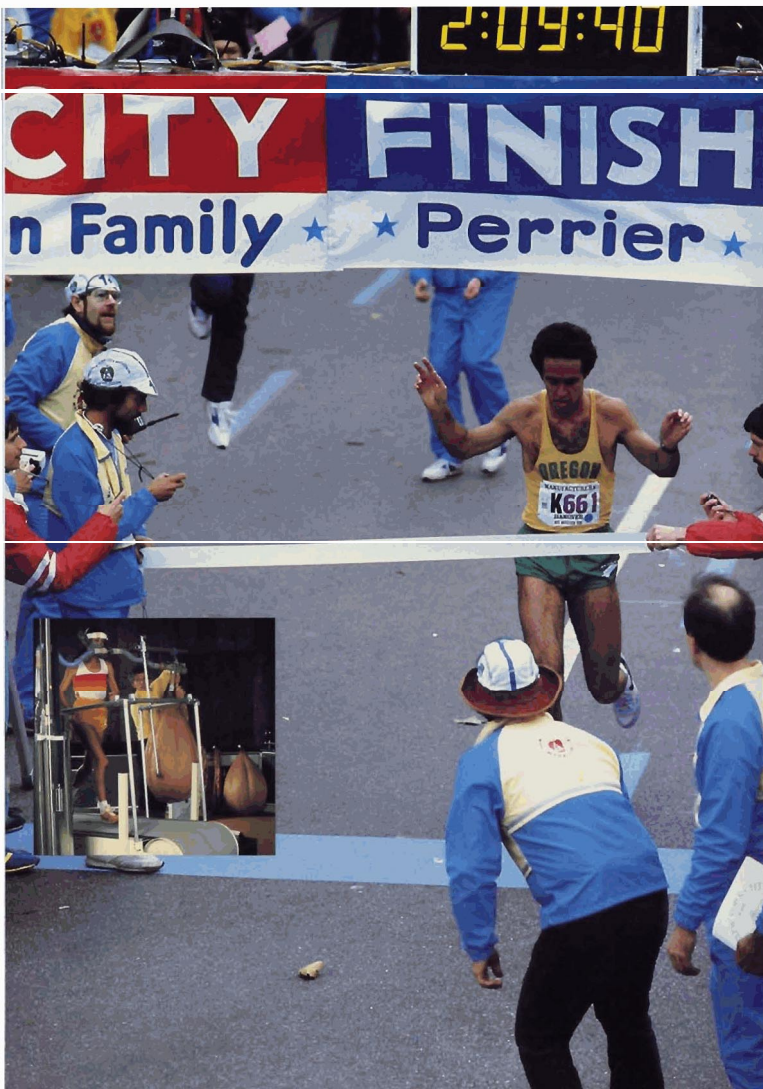
All this while revenues were increasing 70 percent and net income 108 percent.

The challenge and pressure of all these events has been borne by 2,700 loyal employees who have the responsibility to make things happen, and to whom I and all shareholders owe thanks and allegiance.

If 1981 is any indication of NIKE's future—and we believe it is—we look forward to an exciting and rewarding 1982.

Philip H. Knight
President





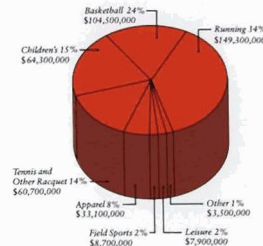
Footwear

1981 reaffirmed our ability to set market goals and surpass them. During the year, NIKE received solid performances in every key area of our market plan. We aggressively entered new markets and strengthened our position in established ones.

\$399 million, which represented a 15% increase over the previous year and accounted for 87% of our total revenues. NIKE's footwear line was sold to over 8,000 retail accounts across the United States.

Our market consisted primarily of consumer outlets which fell into one of four categories: department stores, shoe stores, sporting goods stores, and sports specialty shops. In all, we sold more than 2.5 million pairs of shoes.

We made significant improvements in all product lines, and retained our position as the largest supplier of high quality athletic shoes in the United States. While our roots may go back to running, it was a balanced product line in 1981 which enabled us to penetrate new markets and increase sales.



Alberto Salazar, winner of the 1980 New York Marathon, his first marathon attempt.

Measuring the energy cost of running on the treadmill is one way to compare the effect of various shoe designs on running efficiency.

Last year we offered 140 basic models of athletic shoes for 15 different sports. Nearly 40 new models were introduced to the marketplace and 75 models each produced over \$1 million in sales.

Running, basketball, and tennis shoes continued to account for the majority of sales. Last year (and we successfully undertaking initiatives aimed at increasing the contribution from other sports areas.

Court shoes accounted for 18% of domestic revenues and running shoes accounted for 34%. During 1981, we introduced a new line of performance running shoes.

For children, we introduced an expanded line which accounted for 15% of domestic revenues, compared to 8% last year. For field sports enthusiasts, we introduced a full line of quality baseball and football shoes, plus an improved line of soccer shoes. In addition, we began the development of an improved line of leisure shoes with the introduction of a new line of NIKE hiking boots.

Though all of our athletic shoes are designed for specific sports, a large percentage of NIKE shoes are worn for casual purposes.

During the year, our customers continued to extensively utilize our "Futures" sales program. The program offers significant advantages for both our customers and for NIKE. Customers ordering under the "Futures" program, either five or six months in advance of delivery, are guaranteed that 90% of their order will be shipped within 15 days of their requested delivery date at a specified price. As a manufacturer, the "Futures" program enables NIKE to project market trends and adjust our production schedules accordingly. In 1981, nearly 70% of our domestic footwear was sold under this plan.

During 1981, NIKE footwear was distributed nationwide from distribution centers in Portland, Oregon and Greenland, New Hampshire. We anticipate opening a third major distribution center

NIKE dominates NBA action.

Force plates mounted in the floor are used in conjunction with high-speed cinematography to analyze body movements.

in the Spring of next year, located in Memphis, Tennessee, to serve the midwestern United States.

In the area of promoting NIKE products, we continue to believe that the best advertising takes place in the athletic arena. To that end, 1981 found us continuing to emphasize promotional programs designed to put NIKE footwear on "visible" athletes. Shoes were provided to outstanding athletes and teams, athletes were hired as consultants, and product endorsements were obtained from leading professional athletes.

We also remained active in sponsoring road-races, marathons, and other sporting events, as well as in financing competitions and training opportunities for amateur athletes. NIKE continues to provide financial support to *Athletics West*, a track and field club which offers training opportunities for approximately 60 post-graduate athletes.

Our goal is to continually produce new and better shoes which will aid performance and reduce or eliminate injury.

Today, NIKE shoes have a reputation as being among the most technically innovative shoes on the market; a reputation that has been earned through an ongoing commitment to product research, development, and evaluation.

We were the first company to introduce shoes with full-length cushioned midsoles, lightweight nylon uppers, the unique Waffle-Sole, and the patented Air-Sole.

We believe that our future success will depend heavily on our technical competence and innovation. We need only look back a few years to see how far we have progressed. Almost every shoe in NIKE's line has either been discontinued or altered dramatically since the mid-1970's; not from planned obsolescence, but through evolution.

During 1981, our commitment to research and development continued with the dedication of NIKE's Sports Research Laboratory in Exeter, New Hampshire. Acclaimed as the most comprehensive facility of its kind in North America, the laboratory's operations were an important

part of our \$4 million in product development expenditures in 1981.

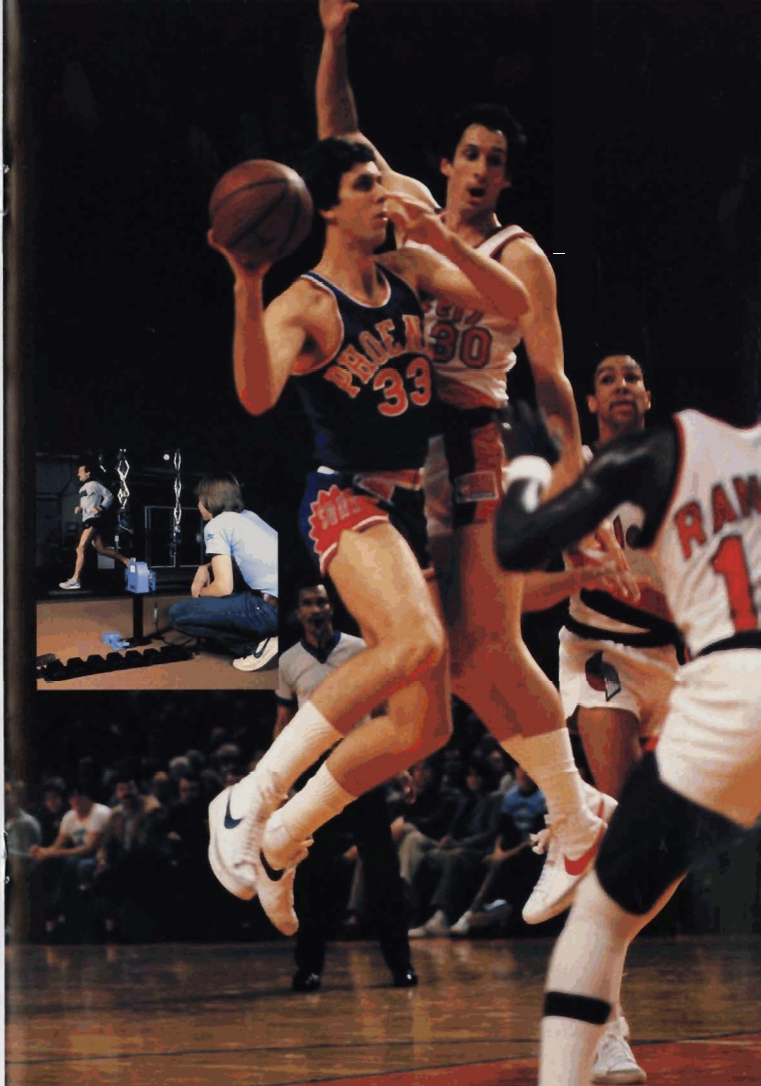
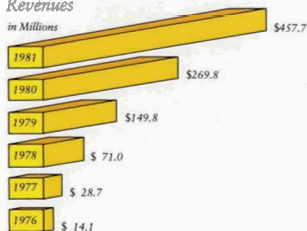
Backed by more than 100 employees working in research and development, the Exeter facility was instrumental in the development of a complete individualized line of running shoes, designed for different foot types, body weights, running speeds, training schedules, and sexes.

Today, our product development activities involve research and testing in biomechanics, exercise physiology, and wear testing. Biomechanics, which is the study of how the human body functions during physical activity, provides us with an in-depth look at the effects of footwear on the athlete. Through the use of high speed photographic analyses of the body in motion, the study of athletes on force plates and treadmills, plus continual testing of new shoes and materials, the researchers at Exeter can accurately identify the basic characteristic patterns of various foot types during activity. This data is then passed on to the company's product development personnel, to be used in the development of prototype shoes.

Input is also received from selected research committees and advisory boards of athletes, coaches, trainers, equipment managers, podiatrists, and orthopedists during the conception and review of new designs.

Revenues

in Millions



Soccer, the sport of the 80s, is the new frontier for NIKE.

This two-station open-pour polyurethane machine is used for making sole units.



NIKE's prototype research activities play an important role in the development of our footwear line. The construction of prototypes enables our engineers and designers to test the feasibility of mass producing specific models. At the same time, extensive field testing by athletes, prior to commercial production, assures both the suitability of the design and the quality of the materials being used.

Ours is a multi-disciplined research effort, and in the end it is again advanced technology that aids in the final development of a shoe. We believe NIKE was the first company to use computers to assist in the design and manufacture of shoes. Our computer aided design-computer aided manufacturing process (CAD/CAM) is particularly useful in the manufacture of outsole molds.

Our commitment to product research, development, and evaluation has not changed. Athletic footwear will continue to evolve, and facilities like the Sports Research Laboratory in Exeter, New Hampshire will continue to make a major contribution to NIKE's future success.

NIKE shoes are manufactured both in the United States and abroad. A key factor in our move to the forefront of the industry has been our ability to consistently deliver high quality shoes from a variety of sources.

In 1981, approximately 90% of our shoes were manufactured on a contract basis by twenty foreign suppliers located in Korea, Taiwan, Japan, Hong Kong, Malaysia, Thailand, the Philippines, and England. The balance was manufactured by company-owned plants in the northeastern United States.

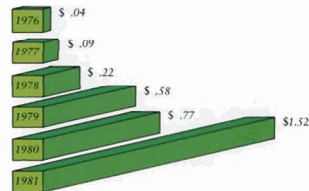
Our ability to successfully utilize many sources of production is a direct result of our total commitment to deliver quality shoes to the marketplace. To that end, foreign manufacturing is performed in accordance with our detailed specifications and NIKE personnel supervise quality control inspections at each production source.

In the future, we will continue to rely on our foreign sources for the majority of our shoes. We are always reviewing additional sources of supply and seeking new, high quality manufacturers, both in the United States and abroad. Current negotiations for the contract production of shoes in the People's Republic of China are but one example, and these negotiations are progressing favorably.

Our continuing relationship with Nissho-Iwai American Corporation was again beneficial. Since 1972, that company has performed import and export services and provided financing for NIKE. We maintain an excellent relationship with Nissho-Iwai and plan to continue to utilize their services.

Entering 1982, the potential for growth in footwear sales remains substantial as the marketplace continues to look to NIKE for superior quality.

Net Income per Common Share



Apparel

Our ongoing goal is to develop and market a line of high quality athletic apparel readily identifiable with the NIKE name and its associated reputation for quality and innovation.

During 1981, the NIKE apparel line made substantial inroads in the market and took its place beside our footwear at many retail outlets. In 1980, apparel revenues reached a modest \$8.1 million. In 1981, revenues climbed to \$33.1 million. We expect a substantial increase in 1982.

Today, NIKE is providing a line of apparel for the sports enthusiast. During 1981, we marketed a range of garments and accessories which included quality warm-ups, performance running apparel, tennis clothes, bags, T-shirts, shorts, singlets, and other activewear. The response by consumers was gratifying. We plan to broaden and improve that line in 1982.

In 1981, we devoted our efforts to further development of the apparel line. While 1981 found the majority of our line in sporting goods stores and specialty stores managed by established footwear customers, the coming year will mark NIKE's entrance into many more retail outlets throughout the country.

The majority of the NIKE apparel line is currently manufactured in the southeastern United States. As with footwear, we contract apparel production with independent manufacturers. Depending upon the costs and quality of production, we may increase the quantity of apparel manufactured overseas.

As our apparel products reached the market in 1981, demand literally exceeded supply. Current plans include implementing our first advanced booking program in the Spring of 1982 to assist in ensuring the adequacy of supply and fulfillment of orders.

While we continue to direct our primary efforts toward the athletic shoe market, we expect NIKE apparel to play an important role in our success in the years ahead.

International

The formation of NIKE International, Ltd., highlights an all out effort to increase our worldwide market share.

Revenues from foreign sales reached \$25.8 million in 1981, compared to \$16.6 million a year earlier.

Late in 1981, we formed NIKE International, Ltd., a wholly owned subsidiary of NIKE, Inc. Chartered in Bermuda, with branch offices in Amsterdam, The Netherlands and Beaverton, Oregon, and with a planned manufacturing subsidiary in Navan, Ireland, NIKE International will provide the base for an expanded worldwide sales program. In the near future, an additional office will be opened in San Juan, Puerto Rico to handle orders for both Central and South America.

During the next year, we will actively seek distribution in countries where our products are not currently marketed. In countries where distributor agreements or direct sales are not feasible, efforts will be made to enter into licensing agreements for the sale of NIKE products. Licensing agreements will provide for NIKE's approval of product lines and on-site quality control inspections.

In the past, our participation in the European market has been modest, partially as a result of the duties imposed on NIKE products arriving from outside the Common Market. To help alleviate this situation, NIKE is currently building a company-owned production facility in Ireland, with an initial monthly capacity of 40,000 pairs of shoes. It is anticipated that production will begin this Fall.

In 1981, our shoes were distributed in thirty countries. Our worldwide sales program is designed to provide a continual but orderly expansion in the number of NIKE countries.

Sebastian Coe set three world records (for 800 meters, 1500 meters, and the mile) within 42 days during the summer of 1979, and collected silver and gold medals at the 1980 Olympics in Moscow.

Finished shoes are placed on wooden storage racks, awaiting boxing and final shipment.





Management Discussion and Analysis

Operating Results

Worldwide sales of NIKE products in fiscal 1981 approximated \$497,244,000 compared to \$284,377,000 in 1980 and \$155,197,000 in 1979, as set forth below:

	Year Ended May 31,		
	1981	1980	1979
	(in thousands)		
Domestic footwear			
Sales by NIKE, Inc.	\$398,852	\$245,100	\$143,400
Domestic apparel			
Sales by NIKE, Inc.	32,077	8,100	2,200
Sales by licensees	6,174	—	—
	38,251	8,100	2,200
Foreign			
Sales by NIKE, Inc.	22,191	14,463	3,639
Sales by licensees	37,950	16,714	5,958
	60,141	31,177	9,597
Total Sales—			
NIKE Products	\$497,244	\$284,377	\$155,197
Revenues (Sales and license fees) recognized on above:			
Domestic footwear	\$398,852	\$245,100	\$143,400
Domestic apparel	33,108	8,100	2,200
Foreign	25,782	16,575	4,230
	\$457,742	\$269,775	\$149,830

The increases in the volume of shoes sold domestically were related to increased acceptance of the Company's products and product line expansion, particularly in court shoes and children's shoes.

Net income rose 108% to \$26 million in fiscal 1981, compared to an increase of 29% in 1980. The higher income in 1981 was attributable to higher sales volume, improved margins and economies of scale in warehousing and selling and administrative expenses, partially offset by higher interest costs (3.9% of sales compared to 3.4% in 1980). The effects of higher interest costs were tempered by a reduction in debt related to the December 2, 1980 public offering. The 29% increase in 1980 net income was attributable to higher revenues (80%) and economies of scale in selling and administrative expenses, partially offset by lower margins and higher interest costs. The lower margins were attributable in part

to a change to the LIFO method of inventory valuation and higher customs duty.

"Futures" orders booked for domestic and foreign delivery from June through October 1981 are approximately 20% higher than such orders in the comparable period in the prior year.

"At once" orders shipped in June 1981 were up 167% over June 1980 orders, compared to an increase of 91% in March-May 1981 over 1980 levels.

Liquidity and Capital Resources

NIKE's continued growth resulted in an increase in current assets of \$89,129,000 in 1981 compared to an increase of \$49,951,000 in 1980. Inventory at May 31, 1981 aggregated \$120,229,000, up \$64,288,000 from 1980. The 1981 increase was attributable, in part, to a decision by management to accelerate purchases to lessen the impact of a July 1, 1981 increase in customs duties. Management believes the duty increases will not have a material economic impact on the Company. Inventory turns for 1981 were 3.7, compared to 4.2 in 1980 and 3.7 in 1979.

Capital expenditures for 1981 aggregated \$9,914,000, compared to \$6,784,000 in 1980 and \$4,120,000 in 1979.

Capital expenditures for 1981 and the increase in current assets were financed by \$27,890,000 net proceeds from the December 2, 1980 sale of Class B Common Stock, an increase of \$29,254,000 in short-term borrowings, long-term borrowings of \$4,392,000 and funds provided by operations.

The Company's current ratio improved from 1.22 to 1 in 1979 and 1.31 to 1 in 1980 to 1.54 to 1 in 1981. The debt to equity ratio at May 31, 1981 was 1.8 to 1, compared to 3.6 to 1 in 1980 and 3.8 to 1 in 1979.

Capital expenditures for 1982 are projected at \$14,000,000, including approximately \$6,000,000 for production facilities in Ireland and Malaysia. A portion of the capital expenditures for the production facility in Ireland will be paid by the Republic of Ireland through an investment grant. The Company expects to increase its short-term lines of credit to \$220,000,000 effective September 1981. The increased availability of short-term funds, together with funds generated by operations, will adequately finance NIKE's 1982 capital expenditure and working capital requirements.

Dan Fouts, quarterback for the San Diego Chargers and AFC Pro Bowl quarterback.

Inside the 335,000 sq. ft. warehouse and distribution center in Greenlaid, N.H.

Financial Reporting

Management of NIKE, Inc. is responsible for the information and representations contained in this report. The financial statements have been prepared in conformity with the generally accepted accounting principles we considered appropriate in the circumstances and include some amounts based on our best estimates and judgments. Other financial information in this report is consistent with these financial statements.

The Company's accounting systems include controls designed to reasonably assure that assets are safeguarded from unauthorized use or disposition and which provide for the preparation of financial statements in conformity with generally accepted accounting principles. These systems are supplemented by the selection and training of qualified financial personnel and an organizational structure providing for appropriate segregation of duties.

During fiscal 1981 an Internal Audit Department was established which reports to the Audit Committee of the Board of Directors, presently consisting of three directors who are not employees of the Company. The Department will review accounting procedures, systematically audit operations and monitor adherence to Company policies. The Audit Committee is responsible for appointing the independent accountants and will review with them, and with management and the internal audit staff, the scope and results of the annual examination, the effectiveness of the accounting control system and other matters relating to the financial affairs of the Company as they deem appropriate. The independent accountants and the internal auditors will have full access to the Committee, with and without the presence of management, to discuss any appropriate matters.

Report of Independent Accountants

To the Board of Directors and
Shareholders of NIKE, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in financial position and of shareholders' equity present fairly the financial position of NIKE, Inc. and its subsidiaries at May 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended May 31, 1981, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for the cost of inventories as described in Note 1 to the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Portland, Oregon
July 15, 1981

Price Waterhouse & Co.

NIKE, Inc. Consolidated Statement of Income

Year Ended May 31,

	1981	1980	1979
	<i>(in thousands, except per share data)</i>		
Revenues	<u>\$457,742</u>	<u>\$269,775</u>	<u>\$149,830</u>
Costs and expenses:			
Cost of sales	328,133	196,683	103,466
Selling and administrative	60,953	39,810	22,815
Interest (Notes 4 and 5)	17,859	9,144	4,569
Other (income) expense	92	107	(443)
	<u>407,037</u>	<u>245,744</u>	<u>130,407</u>
Income before provision for income taxes	50,705	24,031	19,423
Provision for income taxes (Note 6)	<u>24,750</u>	<u>11,526</u>	<u>9,700</u>
Net income	<u>\$ 25,955</u>	<u>\$ 12,505</u>	<u>\$ 9,723</u>
Net income per common share (Note 1)	<u>\$1.52</u>	<u>\$.77</u>	<u>\$.58</u>
Average number of common and common equivalent shares	<u>17,016</u>	<u>16,140</u>	<u>16,828</u>

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

NIKE, Inc.
Consolidated Balance Sheet

May 31,

Assets

	1981	1980
	(in thousands)	
Current Assets:		
Cash	\$ 1,792	\$ 1,827
Accounts receivable, less allowance for doubtful accounts of \$2,573,000 and \$2,000,000, respectively (Note 4)	87,236	63,861
Inventories (Notes 1, 2 and 4)	120,229	55,941
Deferred income taxes (Note 6)	1,300	135
Prepaid expenses	2,487	2,151
Total current assets	213,044	123,915
Property, plant and equipment (Note 3)	23,845	14,193
Less accumulated depreciation	7,673	4,027
	16,172	10,166
Other assets	1,073	534
	<u>\$230,289</u>	<u>\$134,615</u>

Liabilities and Shareholders' Equity

Current Liabilities:		
Current portion of long-term debt (Note 5)	\$ 6,620	\$ 3,867
Notes payable to banks (Note 4)	61,190	36,500
Accounts payable (Note 4)	42,492	36,932
Accrued liabilities	15,401	10,299
Income taxes payable	12,654	6,693
Total current liabilities	138,357	94,291
Long-term debt (Note 5)	8,611	11,268
Commitments and contingencies (Note 10)	—	—
Redeemable Preferred Stock (Note 7)	300	300
Shareholders' equity (Note 8):		
Common Stock, 538,000 shares outstanding at stated value	—	189
Class A Common Stock, 13,930,000 shares outstanding at stated value	194	—
Class B Common Stock, 3,601,000 shares outstanding at stated value	1,386	—
Capital in excess of stated value	27,020	71
Retained earnings	54,421	28,496
	83,021	28,756
	<u>\$230,289</u>	<u>\$134,615</u>

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

NIKE, Inc.
Consolidated Statement of Changes in Financial Position

Year Ended May 31,

	1981	1980	1979
	(in thousands)		
Financial resources were provided by:			
Net income	\$25,955	\$12,505	\$ 9,723
Add income charges not affecting working capital—			
Depreciation	3,774	2,177	1,144
Other	131	63	26
Working capital provided by operations	29,860	14,745	10,893
Net proceeds from sale of Class B Common Stock in December 1980	27,890	—	—
Proceeds from exercise of stock options	450	—	—
Additions to long-term debt	4,392	12,697	2,051
Disposal of property, plant and equipment	134	63	18
	62,726	27,505	12,962
Financial resources were used for:			
Additions to property, plant and equipment	9,914	6,784	4,120
Long-term debt becoming current	7,049	3,976	720
Additions to other assets	670	357	177
Dividends on redeemable Preferred Stock	30	30	30
	17,663	11,147	5,047
Increase in working capital	<u>\$45,063</u>	<u>\$16,358</u>	<u>\$ 7,915</u>

Analysis of Changes in Working Capital

Increase (decrease) in current assets:			
Cash	\$ (35)	\$ 75	\$ 381
Accounts receivable	23,375	30,857	15,884
Inventories	64,288	17,453	21,417
Deferred income taxes	1,165	135	—
Prepaid expenses	336	1,431	71
	89,129	49,951	37,753
Increase (decrease) in current liabilities:			
Current portion of long-term debt	2,753	3,411	81
Bank acceptances payable	—	(5,001)	(1,860)
Notes payable to banks	24,690	19,250	11,250
Accounts payable	5,560	16,653	9,519
Accrued liabilities	5,102	(1,508)	7,306
Income taxes payable	5,961	788	3,542
	44,066	33,593	29,848
Increase in working capital	<u>\$45,063</u>	<u>\$16,358</u>	<u>\$ 7,915</u>

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

NIKE, Inc.
Consolidated Statement of Shareholders' Equity

	Class A Common Stock*		Class B Common Stock		Capital In Excess of Stated Value (in thousands)	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance at May 31, 1978	538	\$189			\$ 71	\$ 6,328	\$ 6,588
Net income—year ended May 31, 1979						9,723	9,723
Dividends on redeemable Preferred Stock						(30)	(30)
Balance at May 31, 1979	538	189			71	16,021	16,281
Net income—year ended May 31, 1980						12,505	12,505
Dividends on redeemable Preferred Stock						(30)	(30)
Balance at May 31, 1980	538	189			71	28,496	28,756
Recapitalization and 30-for-1 stock split	15,602	—					—
Stock options exercised	36	36			414		450
Conversion to Class B Common Stock	(2,246)	(31)	2,246	\$ 31			—
Sale of Class B Common Stock in a public offering in December 1980 (net of issuance costs of \$433,000)							
			1,355	1,355	26,535		27,890
Net income—year ended May 31, 1981						25,955	25,955
Dividends on redeemable Preferred Stock						(30)	(30)
Balance at May 31, 1981	<u>13,930</u>	<u>\$194</u>	<u>3,601</u>	<u>\$1,386</u>	<u>\$27,020</u>	<u>\$54,421</u>	<u>\$83,021</u>

*Prior to the recapitalization in November 1980 (Note 8), the Class A Common Stock was designated Common Stock.

NIKE, Inc.
Notes to Consolidated Financial Statements

Note 1—Operations and significant accounting policies:

The Company designs, manufactures and markets athletic footwear and apparel. The distribution of these products is principally to retailers in the United States. Sales are also made to foreign distributors. The major portion of the Company's products are manufactured for the Company by foreign contractors and imported through Nissho-Iwai American Corporation (NIAC).

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany transactions and balances have been eliminated.

Recognition of revenues

Revenues recognized include sales by the Company plus fees earned on sales by licensees.

Inventory valuation

Inventories are recorded at the lower of cost or market. The Company changed its method of determining cost from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method effective June 1, 1979. This change was made because management believes the LIFO method will present operating results more realistically by matching current costs with current revenues in the consolidated statement of income. The effect of this change was to reduce reported net income for the year ended May 31, 1980 by \$2,100,000. The excess of replacement cost over LIFO cost approximated \$8,300,000 at May 31, 1981 and \$4,200,000 at May 31, 1980.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are charged against income and renewals and betterments are capitalized. The cost and related accumulated depreciation of property, plant and equipment sold or otherwise disposed of are eliminated from the accounts and the resulting gains or losses are reflected in income. Depreciation for financial reporting purposes is determined on a straight-line basis for buildings and leasehold improvements and on the double declining balance basis for machinery and equipment.

Income taxes

Deferred income taxes are recognized for timing differences between income for financial reporting purposes

and taxable income. Investment tax credits are recognized in the year the related assets are placed in service.

Net income per common share

Net income per common share is computed based on the weighted average number of common and common equivalent (stock option) shares outstanding for the period retroactively adjusted for a 30-for-1 stock split effective November 1980 (Note 8).

Note 2—Inventories:

Inventories, by major classification, were as follows:

	May 31,	
	1981	1980
	(in thousands)	
Finished goods	\$109,718	\$48,863
Raw materials	5,177	3,191
Work-in-process	5,334	3,887
	<u>\$120,229</u>	<u>\$55,941</u>

Inventories are pledged as security for certain bank borrowings and for indebtedness to NIAC.

Note 3—Property, plant and equipment:

Property, plant and equipment were comprised of the following:

	May 31,	
	1981	1980
	(in thousands)	
Land	\$ 1,245	\$ 181
Buildings	1,660	1,518
Machinery and equipment	19,054	11,598
Leasehold improvements	1,886	896
	23,845	14,193
Less accumulated depreciation	<u>7,673</u>	<u>4,027</u>
	<u>\$16,172</u>	<u>\$10,166</u>

Included with machinery and equipment are capital equipment leases of \$8,720,000 and \$5,328,000 at May 31, 1981 and 1980. Amortization of capital equipment leases aggregated \$3,032,000 and \$1,387,000 at May 31, 1981 and 1980 and is included with accumulated depreciation.

Note 4—Short-term borrowings:

Notes payable to banks, interest-bearing accounts payable to NIAC and related unused lines of credit are summarized below:

	Banks	NIAC
	(in thousands)	
At May 31, 1981:		
Total borrowings	\$61,190	\$36,529
Interest rate	21½%	19¼%
Unused credit line	\$ 9,210	\$33,471
At May 31, 1980:		
Total borrowings	\$36,500	\$31,965
Interest rate	15¾%	21%
Unused credit line	\$ 1,000	\$ 6,035

Notes payable to banks under the Company's revolving line of credit are secured by accounts receivable and inventories. The bank credit agreement was amended as of December 1, 1980 to reduce the interest rate from the banks floating prime rate plus 1¾% to prime plus 1%. The amendment also calls for the payment of a commitment fee of ½ of 1% on the unused line of credit. The line of credit agreement is renegotiated annually and, among other things, requires the maintenance of specified minimum net worth and financial ratios, limits the amount of expenditures for property, plant and equipment and prohibits cash dividends on the Common Stock without specific approval of the lenders.

Accounts payable to NIAC are secured by certain inventories and accounts receivable in accordance with a September 1980 agreement. This security interest is subordinated to the security interest of the banks noted above. Accounts payable to NIAC are generally due 115 days after shipment from the foreign port. Interest on such accounts payable accrues at a bank's prime rate as of the beginning of the month of the invoice date, plus 1¼% (1½% prior to April, 1981). The NIAC agreement extends to September 1985.

Note 5—Long-term debt:

Long-term debt is composed of the following:

	May 31,	
	1981	1980
	(in thousands)	
7% unsecured note payable to the U.S. Department of the Treasury for customs duties in 24 equal monthly instalments through September 1982	\$ 6,442	\$ 9,500
10%-14% capital equipment lease obligations, payable in monthly instalments through 1988	7,227	4,702
10¾%-14½% mortgage notes payable, secured by certain land and buildings, due in instalments through January 1992	643	681
10% land purchase contract payable in quarterly instalments through November 1983	664	—
Equipment purchase contracts payable in monthly instalments through 1982	255	252
	15,231	15,135
Less portion due within one year	6,620	3,867
	<u>\$ 8,611</u>	<u>\$11,268</u>

The note payable to the U.S. Department of the Treasury resulted from a settlement of duties on a revised appraisal method for certain athletic footwear imported prior to October 2, 1979. Duties on such footwear imported subsequent to that date have been determined on the revised appraisal method and paid on a current basis.

Amounts of long-term debt repayable during the five years following May 31, 1981 are summarized as follows:

	May 31, 1981			
	Long-Term Debt Excluding Capital Lease Obligations	Capital Lease Minimum Lease Payments	Amount Representing Interest	Total
	(in thousands)			
1982	\$5,387	\$2,130	\$ (897)	\$ 6,620
1983	2,166	2,071	(722)	3,515
1984	212	2,013	(547)	1,678
1985	73	1,795	(325)	1,543
1986	51	1,363	(137)	1,277
Later years	115	509	(26)	598
	<u>\$8,004</u>	<u>\$9,881</u>	<u>\$(2,654)</u>	<u>\$15,231</u>

Note 6—Income taxes:

The provisions for income taxes include the following:

	Year Ended May 31,		
	1981	1980	1979
	(in thousands)		
Current:			
Federal	\$22,077	\$ 9,793	\$8,166
State	3,838	1,868	1,534
	<u>25,915</u>	<u>11,661</u>	<u>9,700</u>
Deferred:			
Federal	(1,009)	(114)	—
State	(156)	(21)	—
	<u>(1,165)</u>	<u>(135)</u>	<u>—</u>
Total provision	<u>\$24,750</u>	<u>\$11,526</u>	<u>\$9,700</u>

Income tax expense was reduced by investment tax credits of \$603,000, \$469,000 and \$229,000 for the years ended May 31, 1981, 1980 and 1979, respectively. There were no significant timing differences between financial accounting income and taxable income prior to June 1, 1979. The sources and amounts of deferred in-

come taxes subsequent to that date were as follows:

	Year Ended May 31,	
	1981	1980
	(in thousands)	
Inventory write-down to market	\$ 327	\$(645)
Customs duties	(1,303)	698
Others, net	(189)	(188)
	<u>\$(1,165)</u>	<u>\$(135)</u>

The effective income tax rate differs from the statutory federal income tax rate as follows:

	Year Ended May 31,		
	1981	1980	1979
Federal tax provision at statutory rate	46.0%	46.0%	47.2%
State income taxes, net of federal benefit	3.9	4.1	4.2
Investment tax credit	(1.2)	(2.0)	(1.2)
Other, net	.1	(.1)	(.3)
	<u>48.8%</u>	<u>48.0%</u>	<u>49.9%</u>

Note 7—Redeemable Preferred Stock:

NIAC is the sole owner of the Company's authorized redeemable Preferred Stock \$1 par value, which is redeemable at the option of NIAC at par value aggregating \$300,000. A cumulative dividend of \$.10 per share is payable annually on May 31 and no dividends may be declared or paid on the Common Stock of the Company unless dividends on the redeemable Preferred Stock have been declared and paid in full. There have been no changes in the redeemable Preferred Stock in the three years ended May 31, 1981. As the holder of the redeemable Preferred Stock, NIAC does not have general voting rights but does have the right to vote as a separate class on sale of all or substantially all of the assets of the Company and its subsidiaries; on merger, consolidation, liquidation or dissolution of the Company or on sale or assignment of the NIKE trademark for athletic shoes sold in the United States.

Note 8—Common Stock:

In November 1980 a recapitalization was completed in which 20,000,000 shares of Class A Common Stock no par value and 30,000,000 shares of Class B Common Stock no par value were authorized. Each share of Common Stock outstanding prior to the recapitalization became 30 shares of Class A Common Stock, a 30-for-1 split. Each share of Class A Common Stock is convertible into one share of Class B Common Stock and 13,930,000 shares of Class B Common Stock are reserved at May 31, 1981 for such conversion. Voting rights of Class B Common Stock are limited in certain circumstances with respect to the election of directors.

In October 1980 the shareholders approved the adoption of the Company's Employee Incentive Compensation Plan (Option Plan) under which 840,000 shares of the Company's Common Stock is reserved for issuance as options. Under the terms of the Option Plan, options granted must not be at a price less than the fair market value of the Class B Common Stock at the date of grant and can be issued in either Class A or Class B Common Stock. A summary of the changes in the Option Plan during the year is as follows:

	<i>Option price per share</i>	<i>Number of shares</i>
Outstanding at May 31, 1980		—
Granted (Market value on dates granted— \$19 ⁵ / ₈ -\$20 ¹ / ₄)	\$20 ¹ / ₄ -\$22	60,000
Outstanding at May 31, 1981	\$20 ¹ / ₄ -\$22	<u>60,000</u>
Exercisable at May 31, 1981		<u>—</u>

The Option Plan is administered by a committee of the Board of Directors which has the authority to determine optionees, the number of shares to be covered by each option, the dates upon which each option is exercisable, the method of payment and certain other terms. The Option Plan has a stock appreciation feature which gives the committee authority to allow a specified holder to surrender his option in exchange for (1) the cash value of the difference between the option price and the fair market value of the common stock subject to option at the date of surrender, (2) the number of shares having such cash value or (3) a combination of the above. The Option Plan expires in 1990.

In October 1980 the Company amended compensation agreements with three non-employee directors to provide these directors with the right to purchase up to 360,000 shares of the Company's Class A Common Stock at \$.83 per share (after the 30-for-1 split). The estimated fair market value of these shares at the date granted was \$12.50 per share aggregating \$4,500,000. The rights to purchase 10% of the shares vested in October 1980, an additional 40% will vest in October 1984 and an additional 10% will vest in October of each of the years 1985 through 1989 as long as the directors serve in an advisory and consultative capacity during that period and meet other specified conditions. The three directors exercised their rights to purchase 36,000 shares as of October 1980. All purchase rights must be exercised by October 1994. The Company will recognize compensation expense of \$4,200,000 over the nine-year vesting period.

Note 9—Profit sharing plan:

Effective June 1, 1977, the Company established a profit sharing plan available to substantially all employees. The terms of the plan call for annual contributions by the Company as determined by the Board of Directors. The Board authorized contributions of \$1,020,000, \$750,000 and \$400,000 to the plan for the years ended May 31, 1981, 1980 and 1979, respectively.

Note 10—Commitments and contingencies:

The Company leases space for its offices, warehouses and retail stores under leases expiring from one to fifteen years after May 31, 1981. Rent expense aggregated \$3,929,000, \$2,768,000 and \$1,289,000 for the years ended May 31, 1981, 1980 and 1979. The following is a schedule of minimum future rentals on noncancellable operating leases as of May 31, 1981 (in thousands):

<i>Years Ending May 31,</i>	
1982	\$ 3,700
1983	3,100
1984	2,700
1985	1,850
1986	1,350
Later years	<u>8,500</u>
Total minimum future rentals	<u>\$21,200</u>

The Company is a defendant in two lawsuits and a cross-defendant pursuant to a counterclaim filed by a competitor in a third lawsuit. A running magazine and its publisher filed a complaint in May 1980 against the Company seeking general damages in the sum of \$1,000,000, punitive damages of \$5,000,000, and special damages for alleged defamation of plaintiffs by a Company press release relating to its withdrawal from the magazine's shoe survey and its withdrawal of advertising from the magazine. In April 1979, an apparel company filed a complaint against the Company alleging breach of a licensing agreement, restraint of trade and false representations. Plaintiff seeks damages of \$2,000,000, an award trebling such damages, and punitive damages of \$2,000,000. In October 1980, a competitor filed a counterclaim to a proceeding brought by the Company alleging that the Company has attempted to monopolize the running shoe market and that the alleged acts of monopolization constitute unfair trade practices and wrongful conduct with respect to the competitor. The competitor is seeking injunctive relief and \$10,000,000 in damages, to be trebled under the antitrust laws. The Company believes that the above-described claims are without merit and will not result in a material loss to the Company.

Directors

- 24 William J. Bowerman
*Deputy Chairman of the Board of Directors
and Senior Vice President*
- Richard K. Donahue(2)
*Partner—Donahue & Donahue, Attorneys
Lowell, Massachusetts*
- Delbert J. Hayes(1)
Executive Vice President
- Douglas G. Houser(1)(2)
*Asst. Secretary, NIKE, Inc.
Partner—Bullivant, Wright, Leedy, Johnson,
Pendergrass & Hoffman, Attorneys
Portland, Oregon*
- John E. Jaqua
*Secretary, NIKE, Inc.
Partner—Jaqua & Wheatley, Attorneys
Eugene, Oregon*
- Philip H. Knight(1)
*Chairman of the Board of Directors
and President*
- Charles W. Robinson(2)
*Chairman, Energy Transition Corporation
Santa Fe, N.M.*

- (1) Member—Executive Committee
(2) Member—Audit Committee and
Compensation and Stock Option Committee

Officers

- Philip H. Knight
*Chairman of the Board of Directors
and President*
- William J. Bowerman
*Deputy Chairman of the Board of Directors
and Senior Vice President*
- Delbert J. Hayes
Executive Vice President
- David P.-C. Chang
Vice President
- Neil E. Goldschmidt
Vice President—International Marketing
- Jeffrey O. Johnson
Vice President—Corporate Technology
- James L. Manns
Vice President—Finance
- Robert J. Strasser
Vice President
- Robert L. Woodell
Vice President
- Gary D. Kurtz
Treasurer
- A. Thomas Niebergall
Asst. Secretary

Shareholders' Information

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3900 S.W. Murray Blvd.
Beaverton, Oregon 97005
(503) 641-6453

Annual Meeting
10 a.m., September 18, 1981
Greenwood Inn
10700 S.W. Allen Blvd.
Beaverton, Oregon 97005

Registrar and Transfer Agent
Seattle-First National Bank
821 Second Avenue
P.O. Box 24186
Seattle, Washington 98124

Co-Registrar and Co-Transfer Agent
The First National Bank of Boston
P.O. Box 644
Boston, Massachusetts 02102

Independent Accountants
Price Waterhouse & Co.
101 S.W. Main St.—Suite 1700
Portland, Oregon 97204

Form 10-K

A copy of the Company's 10-K filed with the Securities and Exchange Commission is available without charge to any shareholder. Requests should be sent to the attention of Director of Shareholder Relations at the Corporate Office.



NIKE, Inc.
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Beaverton, Oregon 97005