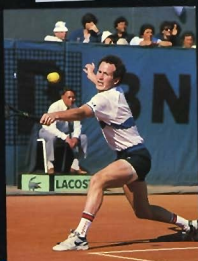


1985



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

NIKE has attained its premier position in the industry through quality production, product innovation, and aggressive marketing.

HIGHLIGHTS

SELECTED FINANCIAL DATA

	1985	1984	1983	1982	1981
	<i>(in thousands, except per share data)</i>				
Year Ended May 31:					
Revenues	\$946,371	\$919,806	\$867,212	\$693,582	\$457,742
Net income	10,270	40,690	57,004	49,036	25,955
Net income per common share	.27	1.07	1.53	1.37	.76
Cash dividends declared per common share	.40	.20	—	—	—
Increase (decrease) in working capital	(16,498)	24,476	97,701	37,483	45,063
At May 31:					
Working capital	\$217,849	\$234,347	\$209,871	\$112,170	\$ 74,687
Total assets	503,966	559,159	508,028	375,473	230,289
Long-term debt	7,573	8,823	10,503	9,086	8,611
Redeemable Preferred Stock	300	300	300	300	300
Common shareholders' equity	271,668	274,536	240,613	131,960	83,021

MARKET PRICES OF COMMON SHARES

The Company's Class B Common Stock is traded in the NASDAQ National Market System under the NASDAQ symbol NIKE. The high and low prices listed reflect actual prices at which the Company's stock traded

during the fiscal years ended May 31, 1985 and May 31, 1984. At May 31, 1985, there were 32 security dealers making a market in the stock and there were approximately 7,000 shareholders of record.

Quarter Ended

	High	Low
1985		
May 31, 1985	11 3/4	8 3/4
February 28, 1985	10 5/8	7
November 30, 1984	10 1/2	6 5/8
August 31, 1984	10 5/8	7 7/8
1984		
May 31, 1984	12 1/2	9 3/8
February 29, 1984	16 3/4	11 1/4
November 30, 1983	18 3/4	14 3/4
August 31, 1983	20	15 1/2

QUARTERLY FINANCIAL DATA

	Quarter Ended			
	May 31	February 28	November 30	August 31
	<i>(in thousands, except per share data)</i>			
Year Ended May 31, 1985:				
Revenues	\$257,138	\$220,744	\$183,902	\$284,587
Gross profit	72,460	51,768	46,794	78,130
Net income (loss)	6,761	(2,117)	(2,196)	7,822
Net income (loss) per common share	.18	(.06)	(.06)	.21
Year Ended May 31, 1984:				
Revenues	\$256,706	\$223,996	\$168,904	\$270,200
Gross profit	62,407	59,854	48,799	90,197
Net income	5,961	6,403	5,646	22,680
Net income per common share	.16	.17	.15	.60

1985: A YEAR OF TRANSITION

Transition: A passage from one condition, activity, subject, or place to another.

For NIKE, 1985 was indeed a year of corporate transition. Many of the changes experienced this year were associated with overwhelming success in new products and market techniques. Other changes, however, led to significant inventory problems and NIKE's first ever quarterly losses.

As in any transition, the year 1985 presented many significant events for NIKE. Chairman Philip H. Knight returned as president of the Company. The once meteoric growth of running as the primary fitness activity rapidly slowed as fitness activities diversified into many areas. NIKE's first major effort at Olympic competition support netted 65 medals for 58 NIKE athletes in Los Angeles. World best times in both the men's and women's marathon were shattered by NIKE athletes Carlos Lopes and Ingrid Kristiansen. The Air Jordan™ line of shoes and apparel named after rookie NBA star Michael Jordan met with unprecedented market success and was acclaimed as the perfect balance of quality product, marketing, and athlete endorsement. 1985 was also a year of contrasts. Against the backdrop of these successes were also financial setbacks.

The re-examination by management of NIKE's corporate identity, of its strategy and long-term plans reaffirmed the values upon which NIKE has built its tremendous success. The same re-examination has also provided the catalyst for meaningful internal change. For management, NIKE's successes in 1985 proved the corporate game plan was good. Identifying problems gave guidance for some internal changes.

The transition in 1985 could also be characterized as a maturing process. NIKE's spirit of competition, its strength of innovation, and commitment to winning are being complemented now with new managerial skill and greater financial control. 1985 provided valuable lessons. Now, more than ever, NIKE is sports. NIKE is also fitness. NIKE's focus has been and continues to be athletes. Most importantly, NIKE is the industry leader in athletic shoes and apparel, a position that will not be relinquished.

The problems that led to NIKE's setbacks and missed opportunities have been attacked. The talent, dedication, and energy that have fueled NIKE's growth are alive and the lessons of transition have been well learned. 1986 will not be an easy time; but as Knight stated earlier this year, "Adversity is nothing new to NIKE — we're a company born out of adversity and our success was built on it."



INTERVIEW WITH PRESIDENT & CHAIRMAN PHILIP H. KNIGHT

In 1964, Philip H. Knight and his college track coach and friend, Bill Bowerman, each contributed \$500 in a new enterprise called Blue Ribbon Sports. The purpose of the venture was to promote and sell foreign made running shoes through a grassroots program of development, marketing, and sales. In fiscal 1972 when the relationship with the foreign producer failed, Blue Ribbon Sports launched NIKE which reached \$1.96 million in sales with 45 employees that year.

Twelve years, millions of shoes, and world records later, NIKE's explosive growth reached \$920 million in sales and employees numbered over 4,000 worldwide. By 1985, however, changes in the market caused NIKE's growth to slow and two losing quarters occurred. During this period Knight returned as president and NIKE began a transition period to regain the momentum of the previous decade.

Adjustments, new management, and exciting products became the springboard of NIKE's turnaround period. The following interview with Knight, chairman and chief executive officer of NIKE, is designed to offer insight into the causes of 1985's problems and the Company's solutions for greater future profitability. The questions are those most often asked by shareholders, analysts, and the media:

Mr. Knight, is there anything you would like to say as a preface to your remarks about NIKE's 1985 results and future outlook?

NIKE experienced a number of significant firsts in 1985. Some were positive, many negative... but we learned a great deal from each event and are moving forward with confidence. My remarks will cover the tough issues facing NIKE as well as NIKE's recent victories.

Why have you resumed your position as president of the Company?

Operating results were not looking good. NIKE was not in trouble but it was in transition. I thought it was better for NIKE if the long-term and operational responsibilities were combined. I could see that through the transitional period that I might, by returning as president, reduce the upheaval in the organization.

Of greater importance in my return, however, is the transfer of much of the day-to-day operations to management. A vertical chain of command has been somewhat restructured and decentralized with many responsibilities going to new and existing management.

Perhaps we can discuss the management changes in more detail later, but first, you have been quoted as saying that 1985 was a "year of growth for NIKE." How can that be when NIKE posted losses for the second and third quarters and had a decrease in profits for the year from fiscal 1984?

To answer that question I must put into perspective NIKE's present situation. If you remember, it was just over 14 years ago that NIKE, then Blue Ribbon

Sports, was struggling to obtain financing, faced losing its sole source of shoe production in Japan, and had gross receipts well under \$1 million. In just ten years NIKE has grown from \$8.3 million in sales to almost \$550 million. Since NIKE made its first public offering just five years ago, sales have more than tripled.

Forbes magazine on January 14th of this year rated NIKE sixth out of the top 1,000 U.S. corporations in five year earnings growth and eighth in five year sales growth. 1985 was not a good year for NIKE in terms of profits — NIKE's growth this year came in other forms.

If significant growth in relative terms didn't come in sales or profits, where then were the successes or growth found?

Growth for NIKE in 1985 came in the form of recognizing our problems and mistakes and making adjustments necessary to maintain NIKE's leadership position in the industry. I believe we can take pride in the fact that despite losing quarters we were still able to produce the hottest selling product the athletic footwear industry has ever seen — the Air Jordan™ line. We have made some important decisions about who we are, our place in the industry, and we have made some adjustments in our attitude about bringing in experienced upper level management. All of this has been accomplished and set in motion without forgetting where we came from — sports, athletics, fitness. I still would not trade NIKE's place with any other company in the industry.

What caused NIKE's quarterly losses?

In 1985, and actually for a period of about 18 months before, several factors came together to

create the loss environment. When I resigned from my role of president in 1983, a new generation of management and employees existed in the Company. My loss of contact with the day-to-day operations and the addition of some less experienced new people occurred at a time of phenomenal expansion for NIKE. Sales in 1983 were \$457 million, in 1982 nearly \$700 million, and in 1983 \$867 million. We were ordering, producing and selling shoes and apparel, especially shoes, at an amazing pace. What occurred during this two year period was a shift in the market. The ten year running boom that brought the active number of people running from somewhere around five million to approximately 40 million people, began to flatten. Just as importantly, the market comprised of those who wore running shoes for casual use actually began to decline. We simply missed the signals that these shifts were occurring and misread changes in buyers' attitudes. As a consequence, we made overly optimistic projections of running shoes sales and failed to fully recognize the inventory problem. Elimination of about 12 million pairs of excessive footwear inventory through various programs over a two year period substantially lowered our margins and contributed to our losses.

You have talked about industry shifts. What are these shifts and what do they mean for NIKE?

For at least a decade, running was America's primary fitness activity. An entire industry was born which supplied shoes to runners, racers, and those who wore running shoes as a part of a major fashion trend. NIKE grew because of an understanding of

the needs of runners. We lead the industry in innovative technology to increase performance and reduce injury. As the fashion conscious consumer began to wear running shoes, NIKE was there to meet the incredible demand. Slowly, two things began to happen.

First, the growth in the number of runners tapered off. Although running had been the fitness activity, it became simply a component in diversified fitness programs. People, for example, who used to run 30 miles per week were running 20 miles, swimming two miles, and perhaps lifting weights as well. In addition, aerobics, bicycling, tennis, racquetball, and soccer replaced the growth we once saw in running. Running and runners will always be with us in large numbers — diversification and fitness, however, now best describe the athletic footwear and apparel markets.

Secondly, with this diversification there occurred a dramatic decline in the use of running shoes for fashion or casual wear. Running shoes were replaced with more traditional leather footwear and court and aerobic footwear.

We discovered that we were not sensitive enough to the shift, and let our product line wander too far into an area we call "athleisure." We have now intentionally pulled back from this area.

NIKE is a sports company. Our innovation, our technology, and our talents are best suited for providing for the needs and demands of athletes. We didn't belong in the fashion industry, outside of sports, and some of our attempts there just didn't work. We no longer will be chasing fashion — style and attractiveness will follow from a functional approach. I believe NIKE is back on

course with our focus on sports and fitness — areas with which we are not only the most proficient, but where we are the national leaders.

Were inventories the only causal factors for the 1985 losses?

No, several other components were also at work. Because of the dramatic increase in revenues through 1984, we had continually budgeted and spent increased amounts for selling and administrative costs, advertising and promotions, with the expectation of corresponding increases in revenues. When the revenues flattened, the costs proportionately increased beyond acceptable levels. We also experienced a onetime bad debt loss of approximately \$2 million when a Japanese customer went bankrupt. Excessive footwear inventories, however, were the primary factor.

What steps were taken to resolve the inventory problem?

As of May 31, NIKE was able to reduce inventories to 9.8 million pairs down from a peak of 22 million pairs. During the year, footwear inventories were reduced \$70 million. This reduction can definitely be considered a successful conclusion to our footwear inventory problems. NIKE management is also targeting inventory levels as an area of special attention with new inventory control systems. In this way we can be more sensitive to the distinction between seasonal fluctuations in inventory levels and market shifts.

With inventories under control what has NIKE done to bring expenses, particularly selling, administrative and promotional expenses under control?

Management has taken substantial steps in turning around the growth of expenses, particularly in the selling and admin-

istrative cost areas. Year to year 1984-1985 fourth quarter, SG & A expenses were up 11 percent versus a 43 percent, 34 percent, and 16 percent for the first, second and third quarters of 1985, respectively.

In the area of athlete endorsement contracts expenses, aggressive steps have been taken to reduce the number and size of these contracts. Because NIKE's obligations under these contracts extend over several years, the benefits of these reductions will take some time to be realized.

Perhaps the most painful experience of the year was the necessity of laying off NIKE employees worldwide. Over the course of the year, several hundred people left NIKE as a consequence of cost-cutting measures. Because many of these people were longtime employees, severance benefits were granted to ease their transition. Fortunately, the necessary layoffs and the associated disruption is completed. The remaining NIKE work force is to be commended for enduring the rough period and their continuing dedication and high level of performance.

Management is an area which observers have criticized NIKE. Could you explain what changes have taken place in NIKE management?

I think it is extremely important to point out that NIKE's greatest asset is the quality and strength of its people. My return to the Company has been overemphasized — NIKE employees are the single largest asset this Company has. Without the quality of its people, this Company would never have achieved its tremendous success so rapidly.



Robert Mueller

NIKE is experiencing a fine tuning and expansion of a solid management core. With our growth, new needs and problems have arisen which require new and different talents. Some of these problem areas have been addressed by moving existing personnel into areas in which they are particularly well-trained and equipped.

For example, George Porter, NIKE's new vice president of finance, has a solid background of 28 years in accounting and finance. He was vice president and controller at Evans Products for 10 years before joining NIKE three years ago.

Most recently, Robert Mueller became NIKE's vice president of sales. For 24 years Mueller was with Jockey International, most recently as vice president of sales.

Has this new talent blended with what has been called the old NIKE team?

The newcomers are experienced, talented, and add a new perspective in areas where NIKE has demonstrated need. What is exciting is how the new management works with and complements the creative core of NIKE. Through establishment of the New Products Group we have strengthened and preserved the energy and innovation that make NIKE's products the industry standard. Lean, quick, and close to the consumer, the New Products people aggressively put new NIKE® brand shoes and apparel into the marketplace. New management will complement these efforts by guaranteeing that necessary controls and business structure keep our \$900 million plus

company running smoothly. We now have the best of both worlds — I believe 1986 will show the blending has been highly successful.

Did the New Products Division have anything to do with the success of the Air Jordan™ line?

Yes, it did. The Jordan line is an example of how our team approach was able to move from concept, to prototype, to sample, to in-line product in just a few months. As of May 31, NIKE had sold and received orders for over \$70 million of Air Jordan™ shoes and apparel. The New Products Group was responsible for virtually every phase of the line. This team approach, led by NIKE veteran Rob Strasser, combines the relocated Research and Development Division with NIKE's top innovators and marketers. Each new product will be "launched" by the team and every phase of development, delivery, marketing, and sales will be carefully monitored to guarantee that we have the right product in the proper quantities at the best time. The skills that drove NIKE to the top of the industry are being fine tuned and more accurately focused with this new approach.

The athletic footwear industry has become nearly as volatile as the apparel industry. The New Products Group will have the speed and flexibility to quickly respond to market shifts and changing consumer attitudes. We've learned a great deal from our previous mistakes.

Is running still a part of NIKE?

Absolutely. Take a look at the success of the track and field athletes who wore NIKE shoes in

the Olympic games. Joan Benoit's gold medal in the women's first Olympic marathon is an example. Carl Lewis' four gold medals; Carlos Lopes, Joaquim Cruz, Al Joyner, and Alberto Cova all won gold medals in NIKE shoes, and the list goes on. In total, 52 athletes won 59 medals in last summer's Olympic games in track and field wearing NIKE shoes. No other company can boast that record.

NIKE continues to support Athletics West, the post-graduate track and field training center in Eugene which is the only facility of its kind in the world. In only one day the men's and women's world records in the marathon fell when Carlos Lopes and Ingrid Kristiansen, a continent apart, ran the 26.2 miles in NIKE shoes. About 45 percent of the first 500 runners in the Frankfurt Marathon, nearly 50 percent of the top 300 finishers in the Bremen Marathon, and approximately 50 percent of the first 500 in the London Marathon wore NIKE shoes in races on our leading competitors' home turf. Our commitment to runners of all ages remains.

Time magazine in 1985 awarded NIKE a design award for the children's Airborne™ running shoe because of the special safety and injury reduction characteristics it possesses.

What products demonstrate that NIKE has responded to this fitness diversification?

The Air Jordan™ basketball line is certainly the most extreme example of our success outside of running. Our patented Air-Sole™ midsole, originally developed for running shoes, has been a tremendous success because of its cushioning properties. From play-

grounds to NBA games, NIKE basketball shoes have been worn by the best players and teams. The final four 1985 NCAA playoff teams, Georgetown, Villanova, Memphis State, and St. Johns, all wore NIKE basketball shoes. The New Products Division has identified basketball as an area of significant growth.

NIKE's aerobic shoe line also utilizes the air technology. The Air Conditioner™ is the top of the line model and has the advantage of NIKE's Air-Sole® and polyurethane spring sole cushioning system, which provides the ultimate safeguard from injury. Proven in laboratory research, the Air-Sole® midsole maintains 100 percent of its original cushioning properties throughout the life of the shoe. Further tests have demonstrated that this Air-Sole® midsole provides the best forefoot and rearfoot impact protection and cushioning in the industry. The Air Conditioner™ is not the first specifically designed fitness shoe, but it is certainly the best yet offered.

Following the Air Conditioner™ is the more moderately priced Conditioner™, which retains many of the same design features and utilizes two color EVA midsole cushioning. The Jenny™, again with exceptional performance features, rounds out the line.

The NIKE line covers the three key market areas of aerobic fitness: the instructor, the serious athlete, and the newcomer. More than two years of NIKE's research and development has gone into our aerobics line. Admittedly, we were late to respond to this market but we are gaining momentum with these new competitive products.

1985 also marked NIKE's

entry into the area of bicycle touring and off-road bicycling with the Velo™ and Discovery™ shoes. Through an exclusive distribution agreement with Specialized Bicycle Components of California, which allows salespeople to pinpoint accounts appropriate to the market, the two shoes combine the comfort, traction, and stability necessary for bicycle touring and off-road bicycle riding. The shoe and the distribution arrangement are exciting steps for NIKE.

Our bicycle shoe, the Velo™, has been surveyed this year and was considered one of the best cycling shoes by *Bicycling magazine*.

NIKE recently purchased controlling interest in Pro Form, Inc., which produces athletic exercise equipment. Although only a small part of NIKE's total operation, Pro Form represents our further exploration into all aspects of the fitness market.

NIKE has the technology. We have the marketing and innovative skills. NIKE knows sports and we have proven our desire to win. With these talents NIKE is positioned better than any company to take advantage of, and lead the growth in, the sports and fitness industry. The expansion of running may have slowed in the



Air Conditioner

United States, but sports and fitness are of proven benefit and certainly a permanent part of our lifestyle.

What is NIKE doing in apparel?

This fall and next year NIKE will release its Athletics West and fitness lines of apparel. These lines are specifically designed for running and various fitness activities. Total fitness in these lines means the ability to participate in a variety of activities: Weight training, aerobics, cycling, and cross-country skiing. For these demanding sports, the NIKE fitness line places emphasis on performance and versatility. It is a system of component dressing that is multi-functional — interchangeable — with the components flexible enough to move from one activity to the next.

Our signature-type line of tennis apparel for John McEnroe has captured his exciting style of play and personality. It was completely sold out in its first few months and is now also being received enthusiastically in Europe.

NIKE's promotional and advertising campaigns, beginning with the Cities Campaign and continuing through the Olympics, have resulted in numerous awards and have caught the attention of most of the United States. How have these activities affected NIKE's bottom line and what is your strategy in the area for the future?

Following the summer games in Los Angeles, we measured the relative change in sales in that area and found an increase during the Cities Campaigns/Olympic period. Certainly the games themselves contributed to the numbers, but NIKE's advertis-

ing was also responsible for communicating in a fresh understated way NIKE's understanding of sports and the superstars associated with the Olympic games. We consciously chose not to become an official sponsor of the Olympics, but NIKE athletes and the NIKE spirit captured the games.

It has been difficult for us in terms of dollars and cents to measure our overall advertising campaign success. Often the value of advertising is more subtle and long-term in its effect upon the image created in the mind of the consumer. Awards tell us the ads were creative and inspirational. Intuitively, we believe that the picture we drew of what NIKE is about — sports, competition, spirit — is the foundation upon which we can build for many years. Market shifts, and other problems I have already discussed, make other analysis difficult.

What directions will you be taking both advertising and promotions in the future?

The style and content of our efforts will basically continue. NIKE's design and advertising people are the best. We will modify the professional/world class athletes' general brand endorsement technique to make the athletes and their endorsements product specific.

The Air Jordan™ line of basketball shoes and apparel links Michael Jordan, his phenomenal athletic prowess, and great personality, directly to specific products. Similarly, the McEnroe apparel line is John McEnroe; it ties him straight to the line. This allows us to be more creative in capturing not just a sports figure's support of the Company but his or her style of play, personality,

and popularity in a special line. Signature lines aren't particularly new... NIKE's way of doing it is.

Our new approach now permits us to sign just the top athletes to contracts with the Company. By minimizing the large number of athletes' relationships with NIKE, we believe we can lower promotional costs. One superstar may be as costly as five mid-level stars but certainly not as expensive as ten. By eliminating, for example, 11 athletes through contract expirations and keeping one superstar, the process should be less expensive, more successful, and easier to administrate.

NIKE's International Division, especially in Europe, has been one of the real growth areas for NIKE. How did these operations perform in 1985?

For fiscal 1985 revenues for NIKE International increased 37 percent. As you noted, Europe was the most important single area for us where sales increased 35 percent to \$109 million. What has been of particular excitement for us is the explosive growth of our running shoes in Europe. In our competitors' backyard we have come to dominate the running shoe market. Moreover, the softening of the running shoe market that occurred domestically has not occurred in Europe — we foresee this area as having great potential for growth and as being highly profitable.

The United Kingdom, West Germany, France, and Sweden are our largest and most successful European countries with sales increases of 42 percent, 51.6 percent, 76.7 percent, and 60.6 percent, respectively. Air Jordan™ and the McEnroe tennis line are doing exceptionally well in the

Rob Strasser



European market.

Europe represents the greatest potential for growth in the near future. NIKE has high expectations for our performance over the next few years.

NIKE recently closed its offices in the Netherlands. Does this move signal a problem in European operations?

To the contrary. NIKE closed the administrative offices in the Netherlands actually as a planned European decentralization effort. We believe we can more smoothly sell and deliver shoes within this system at a lower cost. As I noted earlier, the U.S. market has matured and has adapted more highly competitive, gradual growth characteristics. Although the European market certainly contains similar competitive traits, NIKE's potential for growth is especially strong in Europe.

In 1981, NIKE announced major plans for operations in China. Have the plans been realized and what is currently happening in China?

China has been an enigma to outsiders through its history. We set unrealistic goals for ourselves four years ago — before we understood fully the problems we faced. But I believe we are on our way to solving our production problems. Although the numerical volume of shoes has not been great overall, we have increased that number almost 300 percent this last year to 140,000 pairs per month or nearly 2 million pairs

per year.

The quality and variety of models have increased dramatically. Until two years ago we made only two models of shoes in China. Last year we produced six models of shoes in China. Currently, we are producing 22 models with six more in the developmental stage. All three of our factories are on our futures program. Also, by reducing the number of our factories, as well as by concentrating their geographical locations to the Fujian and Guangdong provinces, I feel we now make better and more concentrated use of our offices and expatriates in China.

What about China as a potential market for sales?

Our original intention over four years ago was to develop China as a production source, not as a market. We felt we simply did not sufficiently understand China's noncapitalist, nonmarket-driven economy to attempt to market our athletic footwear with any hope for success. However, things have been changing so rapidly in China and income levels are increasing to the point that we are currently involved in discussions and negotiations with retail outlets, joint venture partners, possible licensees, and other marketing techniques. We increased sales 15,000 percent from last year when we sold 250 shoes on consignment to this year when we sold 37,500 pairs.

We have talked some about the past and the present. How in a

broader sense do you see NIKE's goals and future?

In the past few years we have observed the emergence of a more intensely competitive, moderate growth industry structure. Until now, NIKE has focused on growth. In the next 12 to 18 months we will focus more on profitability; growth will come, but more gradually.

Despite our unsatisfactory quarterly earnings this year, NIKE has not lost its leadership in the industry — we're still the one to beat. If we are to retain our role as leader and if we are to maintain a sound level of profitability, NIKE must continue to possess those qualities which have made it unique: innovation, creativity, intensity, knowledge of sports and athletes, and most importantly, hard work. NIKE must also stay close to the sports and fitness consumer for signals of attitude change and to implement sound internal management and fiscal controls.

Slowing growth is a natural and inevitable part of the maturing process of a young, entrepreneurial corporation. During this period, NIKE has maintained its strengths and taken the steps necessary to continue its growth and profitability. Growth will come for NIKE, perhaps not in the meteoric style of the last 15 years, but growth which keeps NIKE in its leadership position. The NIKE magic is alive.

NIKE'S NEW PRODUCTS

PRODUCTS THAT CREATE DEMAND.

PRODUCTS THAT ARE AUTHENTIC,
FUNCTIONALLY INNOVATIVE
AND UNIQUELY DESIGNED.

PRODUCTS THAT ARE
DRIVEN BY A MARKETING CONCEPT.

PRODUCTS THAT ARE
DEVELOPED AROUND AND
WITH ATHLETES.

PRODUCTS THAT LEAD TO
OTHER SUCCESSFUL PRODUCTS.

David Chang



ATHLETICS WEST AND V-SERIES

FITNESS



Catalog



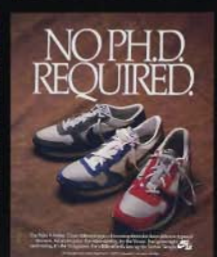
Television Commercial



Point of Purchase Display



Owner's Manuals



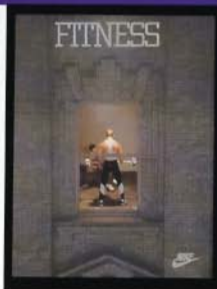
Print Advertising



Catalog/Point of Purchase



Men's Product



Poster/Catalog



Women's Product



MICHAEL JORDAN



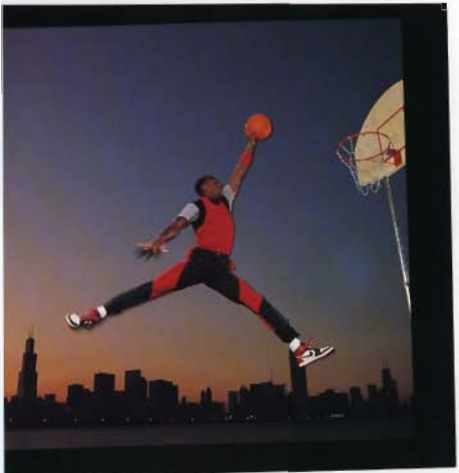
Television Commercial



Television Commercial



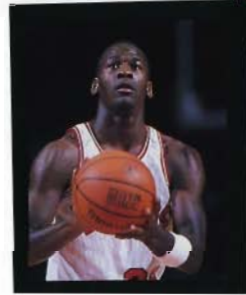
Point of Purchase Display



Poster



Wall Painting



Catalogue



Poster





Catalog

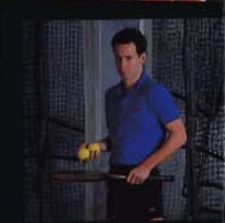
Billboard

Wall Painting

Wall Painting



Print Advertising



FUTURE PRODUCTS

WOMENS

SOCK SHOES

TRIATHLON

CYCLING

GYMNASTICS

WALKING

GOLF

BIG NIKE
(Basketball)

STICKBALL
(Baseball)

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

Revenues from the sale of NIKE products in fiscal 1985 were \$946,371,000 compared to \$919,806,000 in 1984 and \$867,212,000 in 1983. Net income in fiscal 1985 was \$10,270,000 compared to \$40,690,000 in 1984 and \$57,004,000 in 1983.

The decline in 1985 net income was due to a lower gross margin (26.3 percent in 1985 compared to 28.4 percent in 1984) and a higher level of selling and administrative expenses (21.6 percent of revenues in 1985 compared to 17.8 percent in 1984). The lower gross margin reflects the \$94,345,000 reduction in inventory through the sale of products with reduced margins and through writedowns to market. Continued emphasis on advertising and support of apparel and foreign operations were the primary causes for the increase in selling and administrative expenses.

The increase in interest expense resulted from a higher level of average borrowings partially offset by lower interest rates.

The 29 percent decline in 1984 net income, as compared to 1983, was caused by lower gross margins from the sale and writedown of slow moving inventories and increased selling and administrative expenses. These conditions continued to have a major impact on fiscal 1985.

The following discussion reviews revenues of the Company in the United States and in other markets during the three years ended May 31, 1985.

United States Operations

The approximate breakdown of revenues from the sale of NIKE products in the United States follows:

	Year Ended May 31,		
	1985	1984	1983
	(in thousands)		
Running	\$161,300	\$240,200	\$267,600
Basketball	141,900	125,100	122,400
Racquet	74,500	81,400	62,100
Field Sports	41,100	42,200	41,300
Children's	95,900	97,100	120,800
Leisure	52,700	51,600	52,300
Total footwear	567,400	659,600	666,500
Apparel	160,400	121,800	107,400
Athletic equipment	2,100	—	—
Total	\$730,100	\$781,400	\$773,900

Management believes that declines in the sale of athletic footwear were generally due to decreases in consumer use of athletic shoes for casual wear.

"Futures" orders booked for delivery of footwear from June through November 1985 are approximately 26 percent

higher than such orders booked in the comparable period in the prior year. Because the mix of "Futures" and "at once" shipments may vary significantly from quarter to quarter and year to year, "Futures" orders received are not necessarily indicative of total revenues for subsequent periods.

Foreign Operations

The approximate breakdown of revenues from the sale of NIKE products outside the United States follows:

	Year Ended May 31,		
	1985	1984	1983
	(in thousands)		
Europe	\$108,700	\$ 80,600	\$ 38,000
Japan	64,100	60,600	40,600
Canada	27,000	2,100	—
Other	16,500	15,100	14,700
	\$216,300	\$158,400	\$ 93,300

During 1985, Company-owned operations distributed NIKE products in Austria, Canada, France, Germany, Great Britain, Japan, Norway, and Sweden. Effective April 30, 1984, the Company commenced direct distribution in Canada through the acquisition of the Canadian distributorship. Sales in other foreign markets are made through independent distributors or licensees.

LIQUIDITY AND CAPITAL RESOURCES

Current assets decreased \$71,536,000 in 1985 largely as the result of a concentrated effort to bring inventory levels in line with current requirements. Inventories at May 31, 1985 aggregated \$186,285,000, a reduction of \$94,345,000 from 1984 levels. Inventory turns for 1985 were 3.0 compared to 2.3 in 1984 and 2.4 in 1983. Current liabilities were lower by \$55,038,000. As a result, the current ratio at May 31, 1985 was 2.0:1 compared to 1.85:1 at May 31, 1984 and 1.82:1 at May 31, 1983.

Capital expenditures for 1985 aggregated \$21,724,000, due principally to the purchase of land for expansion and consolidation and to purchases in data processing and warehousing. This compares to capital expenditures of \$15,224,000 in 1984 and \$21,031,000 in 1983.

NIKE's ratio of debt to equity at May 31, 1985 was .9:1 compared to 1.0:1 at May 31, 1984 and 1.1:1 at May 31, 1983.

In February 1984, the Company declared its first quarterly cash dividend of \$.10 per share. These quarterly dividend payments have been continued through fiscal 1985. Based upon the Company's currently projected earnings and cash flow requirements, the Company anticipates paying a regular quarterly dividend of \$.10 per share.

Management believes that currently available short-term funds, together with funds generated by operations, will adequately finance 1986 working capital requirements and capital expenditures.

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.

An Internal Audit Department reviews the results of its work with the Audit Committee of the Board of Directors, presently consisting of three directors who are not employees of the Company. The Audit Committee is responsible for recommending to the Board of Directors the appointment of the independent accountants and reviews with the independent accountants, management and the internal audit staff, the scope and the 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 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, 1985 and 1984, 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, 1985, in conformity with generally accepted accounting principles consistently applied. 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.

Price Waterhouse

Portland, Oregon
July 23, 1985

NIKE, INC. CONSOLIDATED STATEMENT OF INCOME

Year Ended May 31,

	1985	1984	1983
	<i>(in thousands, except per share data)</i>		
Revenues	\$946,371	\$919,806	\$867,212
Costs and expenses:			
Cost of sales	697,219	658,549	589,986
Selling and administrative	204,834	163,414	132,400
Interest (Notes 5 and 6)	21,933	19,597	25,646
Other (income) expense	(13)	(172)	1,057
	923,973	841,385	749,089
Income before provision for income taxes and minority interest	22,398	78,421	118,123
Provision for income taxes (Note 7)	<u>16,630</u>	<u>37,567</u>	<u>60,922</u>
Income before minority interest	6,768	40,854	57,201
Minority interest (Note 8)	<u>(3,502)</u>	<u>164</u>	<u>197</u>
Net income	<u>\$ 10,270</u>	<u>\$ 40,690</u>	<u>\$ 57,004</u>
Net income per common share (Note 1)	<u>\$.27</u>	<u>\$ 1.07</u>	<u>\$ 1.53</u>
Average number of common and common equivalent shares (Note 1)	<u>37,892</u>	<u>37,934</u>	<u>37,158</u>

NIKE, INC. CONSOLIDATED BALANCE SHEET

May 31,

ASSETS

	1985	1984
	(in thousands)	
Current Assets:		
Cash	\$ 7,017	\$ 8,320
Accounts receivable, less allowance for doubtful accounts of \$6,323 and \$3,589, respectively	214,797	189,412
Inventories (Notes 1 and 2)	186,285	280,630
Deferred income taxes and purchased tax benefits (Notes 1 and 7)	17,485	16,208
Prepaid expenses (Note 3)	11,739	8,039
Income taxes receivable	—	6,250
Total current assets	437,323	508,859
Property, plant and equipment (Notes 4 and 6)	90,832	74,173
Less accumulated depreciation	40,084	11,293
	50,748	42,880
Other assets (Notes 1 and 3)	15,895	7,420
	<u>\$503,966</u>	<u>\$559,159</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Current portion of long-term debt (Note 6)	\$ 2,296	\$ 2,560
Notes payable to banks (Note 5)	117,573	143,532
Accounts payable (Note 5)	59,294	99,944
Accrued liabilities	37,644	28,476
Income taxes payable	2,667	—
Total current liabilities	219,474	274,512
Long-term debt (Note 6)	7,573	8,823
Non-current portion of purchased tax benefits (Note 1)	7,350	—
Commitments and contingencies (Note 12)	—	—
Minority interest in consolidated subsidiaries (Note 8)	(2,399)	988
Redeemable Preferred Stock (Note 9)	300	300
Shareholders' equity (Note 10):		
Common Stock at stated value		
Class A convertible — 16,628 and 17,659 shares outstanding	199	211
Class B — 20,763 and 19,612 shares outstanding	2,673	2,660
Capital in excess of stated value	78,206	77,457
Unrealized translation gain	1,873	787
Retained earnings	188,717	193,421
	<u>271,668</u>	<u>274,136</u>
	<u>\$503,966</u>	<u>\$559,159</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,

	1985	1984	1983
	(in thousands)		
Financial resources provided by:			
Net income	\$ 10,270	\$ 40,690	\$ 57,004
Income charges (credits) not affecting working capital —			
Depreciation	11,964	10,632	9,421
Minority interest	(3,502)	164	197
Other	1,161	70	(188)
Working capital provided by operations	19,893	51,556	66,434
Purchased tax benefits becoming current	—	1,716	14,270
Additions to long-term debt	3,725	1,161	4,135
Disposal of property, plant and equipment	1,309	1,186	584
Unrealized gain (loss) from translation of statements of foreign operations, including minority interest	1,413	787	(31)
Net proceeds from sale of Class B Common Stock	—	—	51,442
Proceeds from exercise of stock options	750	—	100
Increase in non-current portion of purchased tax benefits	7,350	—	—
	<u>34,440</u>	<u>56,608</u>	<u>136,934</u>
Financial resources were used for:			
Additions to property, plant and equipment	21,724	15,224	21,031
Dividends — Common and Preferred Stock — minority shareholder	14,974	7,484	30
Goodwill	51	195	—
Long-term debt becoming current	1,866	5,439	—
Additions to other assets	4,553	2,785	2,368
Purchase of tax benefits	1,352	1,005	527
Purchase of barter credits	—	—	15,277
	<u>6,418</u>	<u>—</u>	<u>—</u>
	<u>50,918</u>	<u>32,111</u>	<u>39,231</u>
Increase (decrease) in working capital	<u>\$ (16,498)</u>	<u>\$ 24,476</u>	<u>\$ 97,701</u>
ANALYSIS OF CHANGES IN WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash	\$ (1,303)	\$ (4,718)	\$ 8,125
Accounts receivable	25,385	37,831	21,143
Inventories	(94,345)	(3,158)	80,971
Deferred income taxes and purchased tax benefits	1,277	5,705	8,358
Prepaid expenses	3,700	1,414	1,427
Income taxes receivable	(6,250)	6,250	—
	<u>(71,531)</u>	<u>43,113</u>	<u>120,024</u>
Increase (decrease) in current liabilities:			
Current portion of long-term debt	(264)	213	(1,589)
Notes payable to banks	(25,959)	11,440	19,419
Accounts payable	(40,650)	8,842	17,038
Accrued liabilities	9,168	9,455	(1,873)
Income taxes payable	2,667	(1,102)	(8,672)
	<u>(55,018)</u>	<u>18,848</u>	<u>22,121</u>
Increase (decrease) in working capital	<u>\$ (16,498)</u>	<u>\$ 24,476</u>	<u>\$ 97,701</u>

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

NIKE, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock		Capital In Excess of Stated Value	Unrealized Translation Gain (Loss)	Retained Earnings	Total		
	Class A	Class B						
	Shares	Amount	Shares	Amount				
	(in thousands)							
Balance at May 31, 1982	11,976	\$ 166	5,555	\$ 1,414	\$ 27,020	\$ (67)	\$103,427	\$131,960
Stock options exercised			4	5	95			100
Conversion to Class B Common Stock	(3,043)	(40)	3,043	40				—
Gain on translation of statements of foreign operations						137		137
Sale of Class B Common Stock in a public offering in October 1982 (net of issuance cost of \$175)			1,100	1,100	50,342			51,442
Stock split 2-for-1	9,904	99	8,732	87		(186)		—
Net income — year ended May 31, 1983							57,004	57,004
Dividends on redeemable Preferred Stock							(30)	(30)
Balance at May 31, 1983	18,837	225	18,434	2,646	77,457	70	160,215	240,613
Conversion to Class B Common Stock	(1,178)	(14)	1,178	14				—
Gain on translation of statements of foreign operations						717		717
Net income — year ended May 31, 1984							40,690	40,690
Dividends on redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(7,454)	(7,454)
Balance at May 31, 1984	17,659	211	19,612	2,660	77,457	787	193,421	274,536
Stock options exercised	120	1			749			750
Conversion to Class B Common Stock	(1,151)	(13)	1,151	13				—
Gain on translation of statements of foreign operations						1,086		1,086
Net income — year ended May 31, 1985							10,270	10,270
Dividends on redeemable Preferred Stock							(30)	(30)
Dividends on Common Stock							(14,944)	(14,944)
Balance at May 31, 1985	16,628	\$ 199	20,761	\$ 2,671	\$ 78,206	\$ 1,871	\$188,717	\$271,668

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

NIKE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of significant accounting policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated. To facilitate the timely preparation of the consolidated financial statements, the accounts of certain operations maintained outside North America have been consolidated for fiscal years ending in March or April.

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, last-in first-out (LIFO), or market. The excess of replacement cost over LIFO cost approximated \$10,935,000 at May 31, 1985 and \$10,906,000 at May 31, 1984.

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 a declining balance basis for machinery and equipment.

Goodwill

Included in other assets at May 31, 1985, net of amortization of \$817,000, is \$6,519,000 of purchase cost over the fair value of net assets of businesses acquired. This excess is being amortized on a straight-line basis over a period of eight years.

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. During 1982, the Company purchased future tax benefits for \$15,277,000. Tax benefits of \$2,785,000 in excess of the purchase price have been recognized as of May 31, 1985. The current portion of purchased tax benefits of \$4,565,000 is included in deferred income taxes and the non-current portion of \$7,350,000 is classified as a long-term liability.

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 periods retroactively adjusted for periods prior to January 1983 (for a 2-for-1 stock split effective January 1983 (Note 10)).

Note 2 — Inventories:

Inventories by major classification are as follows:

	May 31,	
	1985	1984
	(in thousands)	
Finished goods	\$179,644	\$272,064
Raw Materials	3,464	3,503
Work-in-process	1,177	5,063
	\$186,285	\$280,630

During 1985, domestic inventory quantities were reduced resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the effect of 1985 purchases, the effect of which decreased cost of goods sold by approximately \$1,623,000 and increased net income by approximately \$816,000 or \$0.2 per share.

Note 3 — Barter transaction:

During the current fiscal year, the Company entered into a barter agreement with a trading organization to exchange closetout footwear and apparel inventory valued at approximately \$17,000,000 for cash and credits to be used in obtaining various goods and services in the future.

As of May 31, 1985, the Company had received approximately \$3,800,000 in cash and the utilization of barter credits from the transaction. An additional \$1,200,000 in cash is expected to be received and the Company expects to utilize approximately \$3,000,000 in credits during fiscal year 1986. The remainder of \$6,418,000, net of discount of \$2,600,000, is included in other assets.

Note 4 - Property, plant and equipment:

Property, plant and equipment includes the following:

	May 31,	
	1985	1984
	<i>(in thousands)</i>	
Land	\$12,525	\$ 2,511
Buildings	10,254	9,283
Machinery and equipment	61,321	56,622
Leasehold improvements	6,732	5,757
	90,832	74,173
Less accumulated depreciation	40,084	31,293
	<u>\$50,748</u>	<u>\$42,880</u>

Included with machinery and equipment are capital equipment leases of \$8,283,000 and \$8,594,000 at May 31, 1985 and 1984. Amortization of capital equipment leases aggregated \$6,675,000 and \$5,912,000 at May 31, 1985 and 1984, and is included with accumulated depreciation.

Note 5 - Short-term borrowings:

Notes payable to banks and interest-bearing accounts payable to Nissho Iwai American Corporation (NIAC) are summarized below:

	Banks		NIAC
	Domestic Operations	Foreign Operations	
	<i>(in thousands)</i>		
At May 31, 1985:			
Total borrowings	\$48,206	\$69,367	\$18,182
Interest rate	8 3/4%	9 1/2%	10%
At May 31, 1984:			
Total borrowings	\$83,000	\$60,532	\$45,722
Interest rate	11 1/2%	11 1/2%	11 1/2%

The Company has a \$100,000,000 unsecured domestic revolving credit agreement with a group of four commercial banks of which \$70,000,000 is unused at May 31, 1985. The agreement provides for borrowings at the prime rate or at interest rates based upon spreads above the banks' marginal cost of funds, and requires the payment of a commitment fee of 3/4% on the unused line of credit. The agreement requires, among other things, the maintenance of specified financial ratios and balances and contains limits on the amount of indebtedness, sales of assets, investments and capital expenditures. Total domestic borrowings also included \$18,350,000 and \$10,000,000 at May 31, 1985 and 1984, respectively, under unsecured short-term credit facilities with several banks.

The Company has outstanding unsecured loans at interest rates at various spreads above the banks' cost of funds for financing foreign operations.

Accounts payable to NIAC are generally due up to 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, less 1/2%.

Note 6 - Long-term debt:

Long-term debt includes the following:

May 31,	
1985	1984
<i>(in thousands)</i>	
\$3,719	\$ 599

11.95% - 12.85% notes payable to two French banks, due through March 1988

12.5% note payable to the Malaysian Industrial Development Finance Berhad, secured by the property, plant and equipment located in Malaysia, due in semiannual installments through November 1990

8.4% - 14% capital equipment lease obligations, payable in installments through 1988

10.77% - 12% notes payable to the Republic of Ireland Industrial Development Authority and to two Ireland banks, due in semiannual installments through March 1988

13% Industrial Development Revenue Bond for the State of New Hampshire, secured by certain land and buildings, due in semiannual installments through January 1992

Other

	2,415
	468
	9,869
Less portion due within one year	2,296
	<u>\$7,573</u>

Amounts of long-term debt payable during the five years following May 31, 1985 are summarized as follows:

Long-Term Debt Excluding Capital Lease Obligations	Capital Lease Obligations		Total
	Minimum Lease Payments	Amount Representing Interest	
	<i>(in thousands)</i>		
1986	\$ 863	\$(183)	\$2,296
1987	1,459	(41)	2,068
1988	4,064	(2)	4,110
1989	538	—	538
1990	453	—	453
Later Years	404	—	404
	<u>\$7,781</u>	<u>\$(228)</u>	<u>\$9,869</u>

Note 7 - Income taxes:

Income before income taxes and minority interest and the provision for income taxes are as follows:

	Year Ended May 31,	
	1985	1984
	<i>(in thousands)</i>	
Income before income taxes and minority interest:		
United States	\$24,838	\$75,584
Foreign	(2,440)	2,837
	<u>\$22,398</u>	<u>\$78,421</u>

	Year Ended May 31,	
	1985	1984
	<i>(in thousands)</i>	
Provision for income taxes:		
Current:		
United States	\$10,409	\$33,268
State	909	6,868
Foreign	(590)	429
	<u>10,728</u>	<u>40,565</u>

	Year Ended May 31,	
	1985	1984
	<i>(in thousands)</i>	
Deferred:		
United States		
Federal	4,425	(1,767)
State	34	(439)
Foreign	441	(40)
	<u>4,902</u>	<u>(2,998)</u>
	<u>\$15,610</u>	<u>\$37,567</u>

	Year Ending May 31,	
	Tax Basis	Book Basis
	<i>(in thousands)</i>	
1988	\$ 569	\$ 1,510
1989	334	296
1990	1,236	8,746
1991	—	—
1992	591	—
1993	82	68
unlimited	6,417	5,356
	<u>\$9,239</u>	<u>\$15,976</u>

The provision for income taxes was reduced by investment tax credits of \$321,000, \$495,000 and \$1,390,000 for the years ended May 31, 1985, 1984 and 1983.

The sources and amounts of the provision for deferred income taxes were as follows:

	Year Ended May 31,		
	1985	1984	1983
	<i>(in thousands)</i>		
Inventory adjustment to market	\$ 2,492	\$(6,730)	\$(1,898)
Purchased tax benefits	4,734	4,903	9,270
Deferred compensation	(885)	—	—
Customs duties	—	—	569
Discount of barter credits	(1,290)	—	—
Undistributed earnings of foreign subsidiaries	838	—	—
Other, net	(987)	(1,171)	(2,030)
	<u>\$ 4,902</u>	<u>\$(2,998)</u>	<u>\$ 5,911</u>

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

	Year Ended May 31,		
	1985	1984	1983
	<i>(in thousands)</i>		
U.S. Federal statutory rate	46.0%	46.0%	46.0%
State income taxes, net of federal benefit	4.6	3.9	4.3
Foreign losses providing no tax benefits	15.8	—	2.4
Taxes on foreign earnings	1.8	—	—
Investment tax credit	(1.4)	(.5)	(1.2)
Other, net	3.0	(1.5)	.1
	<u>69.8%</u>	<u>47.9%</u>	<u>51.6%</u>

The Company has operating loss carryforwards for income tax purposes available as deductions from future foreign taxable income expiring as follows:

	Year Ending May 31,	
	Tax Basis	Book Basis
	<i>(in thousands)</i>	
1988	\$ 569	\$ 1,510
1989	334	296
1990	1,236	8,746
1991	—	—
1992	591	—
1993	82	68
unlimited	6,417	5,356
	<u>\$9,239</u>	<u>\$15,976</u>

The losses were principally generated by operations in Japan, Malaysia and Ireland. Utilization is contingent upon these operations attaining sufficient income.

Supplemental Information to Disclose the Effects of Changing Prices (unaudited)

In accordance with the requirements of the Financial Accounting Standards Board the Company presents the following information. The objective of the requirements is to measure the estimated effects of inflation. Historical dollar amounts as reported in the primary financial statements have been adjusted to show the effects of changes in specific prices (current costs). Because the Company values its inventories at the lower of cost, last-in first-out (LIFO), or market, which results in recognition of current cost of goods in cost of sales and since total property, plant and equipment are a relatively minor portion of total assets, the effects of inflation on the Company as measured under the standards are not significant. Management has not concluded that this information accurately represents the true impact inflation has on the Company.

The current cost information was derived by applying published government and private indexes to the related historical costs in current year average dollars. The depreciation and amortization amounts under the current cost method were computed by applying the appropriate indexes against the historical amounts. The provision for income taxes has not been changed because the adjustments are not tax deductible.

CONSOLIDATED STATEMENT OF OPERATIONS ADJUSTED FOR THE EFFECTS OF CHANGING PRICES (in thousands)

	Year Ended May 31, 1985	
	As Reported	Adjusted for Current Cost
Revenues	\$946,371	\$946,371
Cost of sales*	695,532	695,532
Depreciation	11,964	12,634
Selling and administrative*	194,557	194,557
Interest	21,933	21,933
Other (income)	(23)	(23)
	923,973	924,643
Income before provision for income taxes and minority interest	22,398	21,728
Provision for income taxes	15,610	15,610
Income before minority interest	6,768	6,098
Minority interest	3,502	3,502
Net income	\$ 10,270	\$ 9,600
Unrealized gain from decline in purchasing power of net amounts owed		\$ 1,991

The increase in inventories and property, plant and equipment resulting from general inflation of \$11,608 was offset by a decrease in the specific prices of such assets of \$11,467. At May 31, 1985, the current cost of inventories was \$194,413 and the current cost of property, plant and equipment, net of accumulated depreciation and amortization was \$52,827. Corresponding historical cost amounts were \$186,285 for inventories and \$50,748 for property, plant and equipment.

*Exclusive of depreciation.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR THE EFFECTS OF CHANGING PRICES

	Year Ended May 31,				
	1985	1984	1983	1982	1981
	(in thousands, except per share and CPI data)				
Revenues:					
As reported	\$946,371	\$919,806	\$867,212	\$693,582	\$457,742
Current cost information:					
Net income	9,600	39,999	58,413	52,534	
Net income per common share	.25	1.05	1.57	1.47*	
Net assets at year-end	282,184	283,585	259,607	148,476	
Decrease in current cost of inventories and property, plant and equipment, exclusive of inflation	11,467	13,824	6,696	12,097	
Other information:					
Purchasing power gain on net monetary items	1,991	4,884	2,356	5,405	
Market price per common share at year-end as reported	11 1/8	9 3/4	19 3/8	14 7/8*	11 1/8*
Average consumer price index	315.5	303.6	292.6	280.3	257.5
Cash dividends declared per common share as reported	.40	.20			

*Adjusted for 2-for-1 stock split distributed in January 1983.

LOCATIONSCorporate Headquarters

1900 S.W. Murray Blvd.
Beaverton, Oregon 97005

United States Sales and Distribution Centers

10605 S.W. Allen Blvd. 8400 Winchester Blvd.
Beaverton, Oregon 97005 Memphis, Tennessee 38138

150 Ocean Road 2455 N.W. Nicolai Street
Greenland, New Hampshire 03840 Portland, Oregon 97210

Foreign Sales Administrative Offices

10300 S.W. Allen Blvd.
Beaverton, Oregon 97005

Japan Sales and Marketing Office

NIKE Japan Corp. Head Office
6F Suncrest Building
13-5, Kita-Aoyama, 2-Chome
Minato-Ku, Tokyo 107, Japan

Canada Sales and Marketing Office

NIKE Canada Ltd.
2445 Canoe Avenue
Counitlam, British Columbia
Canada V3K 6A9

European Sales and Marketing Offices

Austria	Germany
Mayerwies 341	Robert Koch Strasse 14-16
A5023 Salzburg	D-6108 Weiterstadt
Austria	West Germany

Great Britain	Norway
Coniston House	Hartmannsvei 44
Washington Centre	Oslo-2
District 4, Washington	Norway
Tyne & Wear NE38 7RN	
England	Sweden

France	Rastensgatan 3
7, BLD D'Osny	S 172 30 Sundbyberg
Parc D'Activites de Cergy	Sweden
St. Christophe BP 8237	
95801 Cergy Pontoise Cedex	
France	

NIKE-owned Shoe Manufacturing Facilities

Factory Island	Springwell Mills, Church Street
Saco, Maine 04072	Heckmondwike
	West Yorkshire
Athboy Road	England
Navan	
County Meath	
Ireland	

NIKE-owned Shoe Component Manufacturing Facility

Lot 47, Kulim Industrial Estate
Kulim, South Kedah
Malaysia

SHAREHOLDERS' INFORMATIONCorporate Office

1900 S.W. Murray Blvd.
Beaverton, Oregon 97005
(503) 641-6453

Annual Meeting

10 a.m., September 23, 1985
Greenwood Inn
10700 S.W. Allen Blvd.
Beaverton, Oregon 97005

NIKE Advisory Council

Maurice Lazarus
Boston, Massachusetts

Independent Accountants

Price Waterhouse
101 S.W. Main Street-Suite 1700
Portland, Oregon 97204

Registrar and Transfer Agent

Seattle-First National Bank
1001 Fourth Avenue
P.O. Box 24186
Seattle, WA 98124

Co-Registrar and Co-Transfer Agent

The First National Bank of Boston
100 Federal Street
P.O. Box 2016
Boston, Massachusetts 02110

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.

DIRECTORS

William J. Bowerman
*Deputy Chairman of the Board of Directors
and Senior Vice President*

Robert T. Davis (2)
*Professor of Marketing, Stanford University
Palo Alto, California*

Richard K. Donahue (2) (3)
*Partner—Donahue & Donahue, Attorneys
Lowell, Massachusetts*

Delbert J. Hayes (1) (4)
Executive Vice President

Douglas G. Houser (2) (3)
*Assistant Secretary, NIKE, Inc.
Partner—Bullivant, Houser, Bailey, Hanna,
Pendergrass & Hoffman, O'Connell & Goyak,
Attorneys
Portland, Oregon*

John E. Jaqua (3)
*Secretary, NIKE, Inc.
Partner—Jaqua, Wheatley, Gallagher &
Holland, Attorneys
Eugene, Oregon*

Philip H. Knight (1) (4)
*Chairman of the Board of Directors
and President*

Thomas O. Paine (4)
*Chairman, Thomas O. Paine Associates
Los Angeles, California*

Charles W. Robinson (4)
*Chairman, Energy Transition Corporation
Santa Fe, New Mexico*

Robert L. Woodell (1)
Vice President

(1) Member—Executive Committee

(2) Member—Audit Committee

(3) Member—Compensation and

Stock Option Committee

(4) Member—Strategy 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

Harry C. Carsh
Vice President

David P.-C. Chang
Vice President

Neil E. Goldschmidt
Vice President

James L. Manns
Vice President

Robert L. Mueller
Vice President

Ronald E. Nelson
Vice President

George E. Porter
Vice President-Finance

Robert J. Strasser
Vice President

Dale N. Wahl
Treasurer

Robert L. Woodell
Vice President

A. Thomas Niebergall
Assistant Secretary

Lindsay D. Stewart
Assistant Secretary



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NIKE, Inc.
1900 S.W. Murray Blvd.
Beaverton, Oregon 97005
Telephone 503/641-6453

