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

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

To Our Shareholders:

In the vernacular of the Wall Street brokerage community, fiscal 1987 was a mixed year for NIKE. It was a year in which sales dropped 18%, earnings declined 40% to 93¢ a share and we struggled with market share.

In spite of these difficulties, there were a number of positive aspects to the year. We remained solidly profitable, returning 11% on investment for the year.

Our goal at the start of the year was to protect our base of footwear and apparel products in the performance area. I believe that the range of new products brought out in 1987 did that brilliantly. By the end of the year we had re-established ourselves as *the* performance athletic shoe company.

Futures orders, which measure footwear pairage scheduled for U.S. delivery for the next six months, are up for the first time in over a year.

Our balance sheet gets stronger each month and positions us for future growth—either generated internally or through acquisition.

Our planning is getting better, opportunities for growth have never been as good, and the price of our common stock is at a five year high.

The morale and enthusiasm of our employees remain very high.

Quality, I am sure, is what any CEO—certainly this one—wants his company to stand for.

Quality starts with the product—product that not only can be used in actual athletics, but that truly enhances performance. If you are an athletic shoe company and you “cheat” on that premise, it is impossible to have quality in the rest of your programs.

But quality of product is not enough. We aim also for quality of service, quality of advertising, and quality people to represent the Company. It is not easy to achieve in any one area, let alone all four.

As this industry continues to grow, the companies that comprise it begin to stand for different things.

It is my belief that NIKE continues to distinguish itself for its quality.

One of the impressions of quality we generate comes from NIKE's increased emphasis on consumer advertising, particularly our Air campaign.

The campaign had its inspiration from a comment made by Dr. Thomas Paine at a meeting of the Board of Directors: “What NIKE stands for is a revolution in footwear.”

The NIKE-AIR® campaign has been built around a dozen NIKE-AIR® models; is tied to an aggressive selling effort; and includes extensive use of print and television advertising.

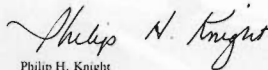
This, of course, goes on at the same time there is a revolution in American lifestyle, which is increasingly more active and cuts across several different fitness activities.

We feel the twelve shoes that make up the initial offering are worthy of the label “Revolution.” They have more Air, are more stable, and weigh less than our past efforts. They enhance the healthy and revolutionary lifestyles we are leading. And they are products, because of patent protection and complexity of manufacturing, that our competitors cannot make.

So there was a lot more to 1987 than just 93¢.

And the most important thing is that all the areas in which we made progress during the year laid the foundation for what promises to be a brilliant future.

NIKE is dedicated to achieving just that.



Philip H. Knight

Chairman of the Board and Chief Executive Officer



*Alberto Tomba
Olympic and World Champion—10,000m*

In 1987, NIKE successfully re-established itself as the performance athletic shoe brand. This came about through the introduction of twelve new NIKE-AIR® models, containing improved technology and designs.

These shoes were a breakthrough in many ways. We've known about and used Air since 1978. However, our research has led us to some exciting new discoveries. Our continued emphasis on the NIKE Sport Research Laboratory has resulted in innovative design features like visible Air cushioning, anatomically correct lasts and Footframes, stability devices, and new materials such as Durathane. The lab is continually refining products to meet the varied requirements of today's and tomorrow's athletes.

The excitement NIKE-AIR® led by the Air Max, has generated for the brand, is reflected in the advertising campaign using the theme "Revolution."

The shoes sold out beyond our expectations. The message that NIKE is at the forefront of the revolution in fitness and technology was heard by retailers and consumers alike. It showed the world that the essence of the fitness movement and what is happening at NIKE are one and the same.

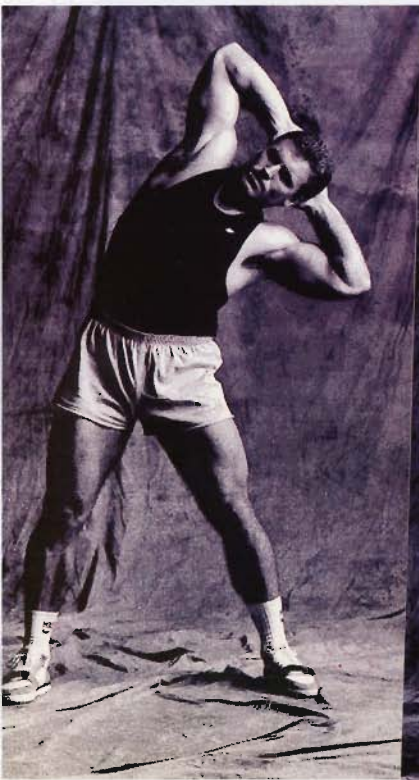
The success of NIKE-AIR® technology in Running was demonstrated by the Air Pegasus, a classic model in its fourth generation, which sold its 5,000,000th pair this year.

Track and Field hit great strides with both men's and women's victories from Athletics West team members in the National Cross Country Championships. A.W. hurdler Danny Harris broke Edwin Moses' 107-race winning streak when he won the 400m hurdles in Madrid in June. We are looking ahead to the '88 Games in Seoul with great expectations for NIKE athletes.



Air Max

*Honus Long
LA Raiders*



*Juana Eros
Tribble*

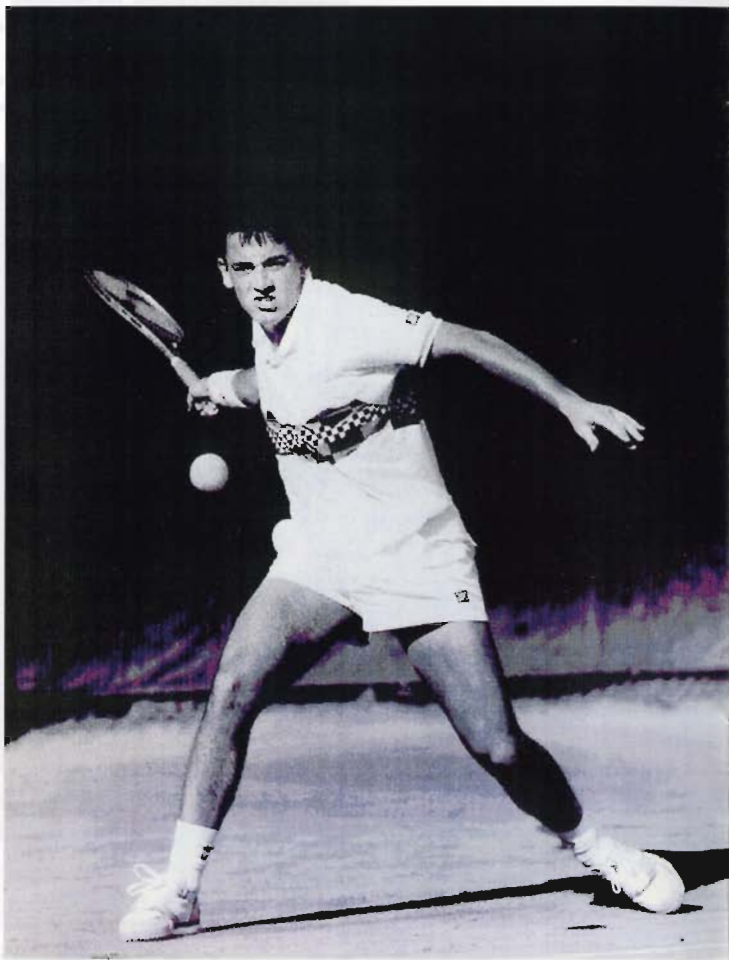


*Men's Air
Trainer High*



*Women's Air
Trainer High*

As fitness has evolved, it has come more and more to mean participation in a variety of activities. This "cross-training" trend adds balance to workouts and can prevent injuries and alleviate monotony. It promotes better all around fitness. NIKE's answer to cross-training is the Air Trainer, the first shoe with both the cushioning for running and the stability for court sports and aerobic dance moves.



*Mikhail Pavlov
Tennis Professional*

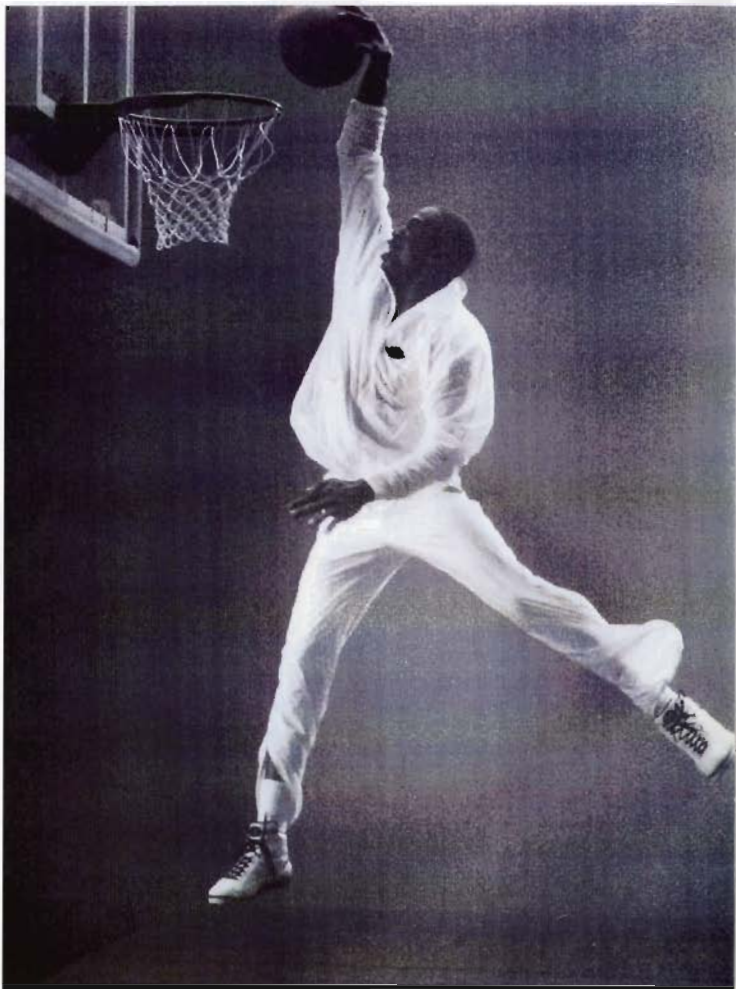
Tennis gained fresh energy with the introduction of the new visible Air shoe, the Air Ace. This shoe is designed specifically for the professional or serious tennis competitor who requires the highest degree of support, response, and comfort.

The '87/'88 Tennis line of footwear and apparel represents technology, quality, and style for players of all levels. This new line, launched at the U.S. Open, will put us prominently back on the circuit.

On an international note, the Soviet tennis endorsement agreement, which was finalized in May, offers NIKE the chance to introduce our product throughout the Soviet Union. This is the first time in history that a Russian sports federation has endorsed products from an American-based manufacturer. From product technology to progressive marketing, NIKE is positioned to take a leadership role in tennis in the coming year.



Air Ace 2



*Michael Jordan
Chicago Bulls*

In Basketball, NIKE continued to dominate. We had two college teams in the NCAA Final Four Championships. A significant increase in the critical high school market was reflected in the biggest team sales season in our history.

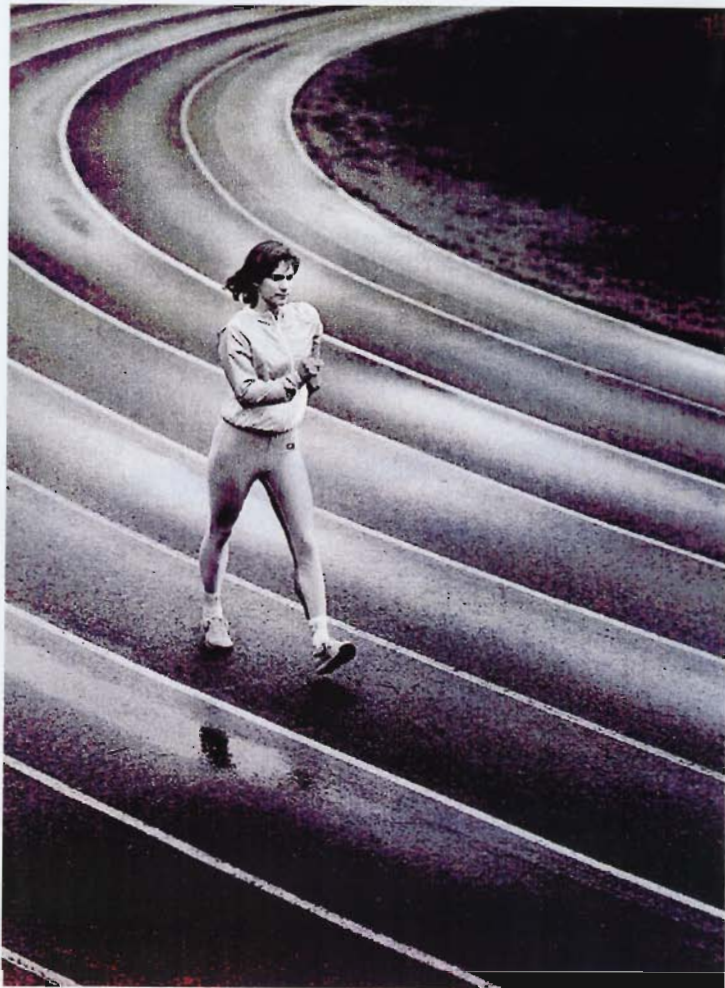
Michael Jordan, the scoring champ of the NBA and the League's most dynamic player, remained the centerpiece of NIKE Basketball as we introduced the second generation of shoes under the Air Jordan label.

Visible Air came to Basketball in 1987 with the introduction of the Air Revolution, one of the industry's most talked-about products. This shoe will lead the way for NIKE's continued command of the Basketball category.

NIKE technology, like that found in the Air Revolution, has pervaded every area of our product line. The need for improved technology in Children's shoes resulted in the introduction of the Air Jordan, Air Max, and Air Trainer for kids. The demand for these landmark \$50 models was affirmed by good sell-through during Back-to-School. Another breakthrough in the Children's line came in the form of shoes designed specifically for activities unique to kids, such as skateboarding and BMX biking.



Air Revolution



Market Wherms
Professional Model

NIKE was the first company to approach Walking from an athletic base. Our experience in other sports translated well into the development of the Walking product line. Air cushioning is a vital part of our line, best demonstrated in the Air Walker Max. This shoe, with its rocker midsole, ski lock heel and state-of-the-art componentry, is yet another example of NIKE technology at its finest.

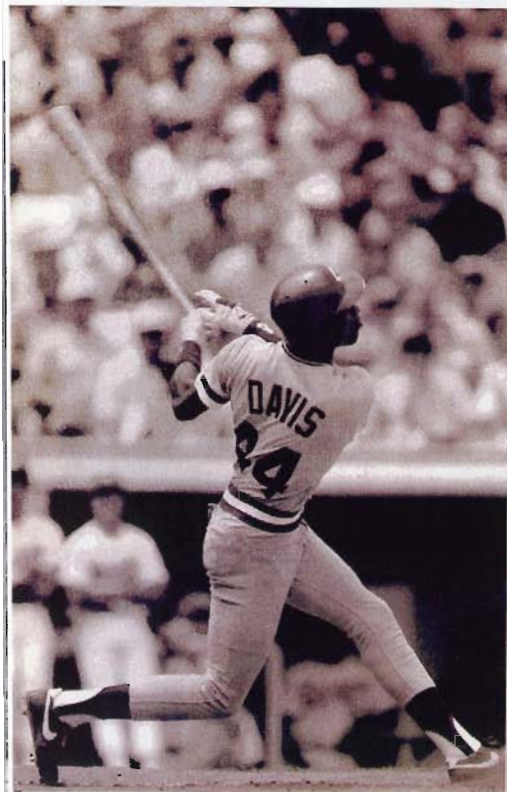
We see Walking as a tremendous growth area. As part of our marketing plan we strive to communicate to the public some of what we've learned along the way. Stephen Kiesling, Senior Editor of *American Health Magazine* and Ned Frederick, former Director of the NIKE Sports Research Laboratory, co-authored a book called *Walk On* which contains extensive information on every aspect of walking. NIKE makes this book available through various promotions in an effort to lead with consumer education as well as with product.

NIKE continues to be on the cutting edge in other sports-related areas. Recently we introduced the NIKE Monitor, an electronic training aid which provides digitized feedback on all elements of a workout. This lightweight system takes fitness technology another step into the future.



Air Walker Max

Eric Davis
Cincinnati Reds



Our exposure in Major League Baseball is exceptional and makes NIKE a driving force in the marketplace. Early bookings are heavy on the new MCS Air Slam, the first in-line Air baseball shoe offered. Besides Air cushioning, the MCS series boasts a lightweight plastic outsole that is flexible and functional, plus a durable and breathable synthetic upper that has been well accepted by players.

The Major League Baseball agreement, an exclusive license to market specially designed baseball apparel with "street appeal," gives us an opportunity to translate an on-field performance attitude into volume sales.

Football stars like Lawrence Taylor, Howie Long, and Neil Lomax provide unparalleled visibility to our Football line. NIKE's technology, introducing new cushioning, stability, and fit features, has resulted in football shoes that can actually benefit a player's game.



MCS Air Slam

Curtis Strange
Professional Golfer



NIKE started a new tradition in the Golf market. It began with our heritage in sports and competition—with our own tradition of designing superior athletic shoes. This approach has taken us to a strong number two position in the Golf market in only five years.

Champion golfers like Curtis Strange, who won six tournaments in two years in NIKE shoes, and Juli Inkster, ranked #3 on the LPGA money list, head up NIKE's professional golf roster.

The introduction of NIKE-AIR® cushioning in the Air Birkdale signifies another step forward in extending NIKE technology into this traditional sport.

In sum, we remain the technological leaders of the athletic shoe industry. We see the market coming our way both nationally and internationally. Our financial position is strong; we have room for growth. We are ready and well positioned for the year ahead.



Air Birkdale

Highlights

Selected Financial Data

	1987	1986	1985	1984	1983
	<i>(in thousands, except per share data)</i>				
<i>Year Ended May 31:</i>					
Revenues	\$877,357	\$1,069,222	\$946,371	\$919,806	\$867,212
Net income	35,879	59,211	10,270	40,690	57,004
Net income per common share	.93	1.55	.27	1.07	1.53
Cash dividends declared per common share	.40	.40	.40	.20	—
<i>At May 31:</i>					
Working capital	\$325,200	\$278,784	\$217,849	\$234,347	\$209,871
Total assets	511,843	476,838	503,966	559,159	508,028
Long-term debt	35,202	15,300	7,573	8,823	10,503
Redeemable Preferred Stock	300	300	300	300	300
Common shareholders' equity	338,017	316,846	271,668	274,536	240,613

Selected Quarterly Financial Data

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1987	1986	1987	1986	1987	1986	1987	1986
	<i>(in thousands, except per share data)</i>							
Revenues	\$257,213	\$327,708	\$183,063	\$237,908	\$199,418	\$238,655	\$237,663	\$244,951
Gross profit	83,817	106,070	56,749	77,514	60,669	80,814	79,460	81,901
Net income	14,940	24,151	5,189	9,843	4,255	11,491	11,495	13,726
Net income per common share	.39	.64	.13	.25	.12	.30	.29	.36
Dividends declared per common share	.10	.10	.10	.10	.10	.10	.10	.10
Price range of common stock								
High	20 1/2	12%	15%	14 1/2	15	17%	18%	18%
Low	13 1/2	9%	10%	11%	11%	12%	14	15%

The Company's Class B Common Stock is traded in the NASDAQ National Market System under the NASDAQ symbol NIKE. At May 31, 1987, there were 32 security dealers making a market in the stock and there were approximately 5,400 shareholders of record.

Management Discussion and Analysis

Operating Results

Revenues in fiscal 1987 declined from the previous two years due to the significant decrease in volume of Air Jordan basketball products, the elimination in 1987 of revenues from the Company's unprofitable Japanese subsidiary which was sold (see Note 4 to the Consolidated Financial Statements) and increased competition from other athletic footwear companies. The approximate breakdown of revenues by product category follows:

	Year Ended May 31,		
	1987	1986	1985
	<i>(in thousands)</i>		
Footwear			
Basketball	\$132,500	\$212,600	\$153,200
Running	115,500	150,000	163,600
Fitness	76,600	54,100	13,800
Children's	75,600	115,400	101,000
Field Sports	43,900	35,400	38,100
Racquet	36,200	68,500	76,000
Other	29,700	13,500	21,700
Total footwear	510,000	649,500	567,400
Apparel	130,700	164,600	160,400
Athletic equipment	900	2,500	2,300
Total United States	641,600	816,600	730,100
Foreign			
Europe	191,400	166,300	108,700
Japan	—	42,400	64,100
Canada	20,300	22,900	27,000
Other	24,100	21,100	16,500
Total foreign	235,800	252,700	216,300
Total NIKE	\$877,400	\$1,069,300	\$946,400

Net income for fiscal 1987 was lower than the record year of 1986, but was significantly improved from 1985. The decline in 1987 income was due primarily to decreased revenues caused by reduced quantities sold. Although revenues declined, improved inventory management allowed the Company to maintain gross margins at approximately 1986 levels. In fiscal 1985 lower gross margins, resulting from writedowns of slow moving inventory, were the primary cause of the lower net income. Selling and administrative expenses have remained relatively constant over the last three years.

An improved cash position has allowed NIKE to reduce borrowings and interest expense and has also resulted in increases to interest income.

Opening Results (continued)

Fiscal year 1987 other (income) expense consists primarily of interest income and a \$3.7 million non-taxable gain as a result of recalculating the effect of the 1986 Tax Reform Act on a purchased tax benefit liability, offset partially by profit sharing expense and by the loss on disposition of two subsidiaries. Other expense in 1986 includes costs of manufacturing plant shutdowns in Maine and Ireland, and the effect of the Company selling its 51% ownership in a Japanese subsidiary and in terminating its Japanese joint venture agreement.

The effective income tax rates for fiscal years 1987 and 1986 were slightly above 50% and exceeded the statutory 46% rate primarily due to state income taxes. In 1985, the effective tax rate was approximately 70% due to non-deductible foreign losses. The 1986 Tax Reform Act should positively affect the Company by lowering its effective tax rate.

"Futures" orders booked for domestic delivery of footwear from June through November 1987 are approximately 6% above 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 from year to year, "futures" orders received are not necessarily indicative of total revenues for subsequent periods.

Liquidity and Capital Resources

NIKE's financial condition is strong. At May 31, 1987 the Company had cash and equivalents of approximately \$127 million and working capital in excess of \$325 million. The comparable balances at May 31, 1986 were \$18 million and \$279 million. This improvement is attributable to improved inventory management, profits, and a \$25 million seven-year term loan at a fixed interest rate of 8.45% obtained in June 1986. The current ratio at May 31, 1987 was 3.6:1 compared to 3.1:1 at May 31, 1986.

Inventories at May 31, 1987 aggregated \$121 million, down from \$180 million at May 31, 1986, and are now at their lowest level since fiscal 1981. Inventory turns for 1987 and 1986 were 4.0 compared to 3.0 in 1985.

Capital expenditures for 1987 aggregated \$12 million due primarily to electronic data processing purchases and warehouse construction. This compares to capital expenditures of \$17 million in 1986 and \$22 million in 1985. The Company is currently in the process of constructing a new western region distribution facility at an estimated cost of \$10 million, to consolidate warehousing currently housed in several leased facilities. The construction will be financed internally. Most product manufacturing is done by contract factories so NIKE has little investment in manufacturing plant and equipment.

Quarterly cash dividends of \$10 per share, initially declared in February 1984, were continued through fiscal 1987. Based upon currently projected earnings and cash flow requirements, the Company anticipates continuing the dividend.

At May 31, 1987 the Company had \$100 million in domestic unused lines of credit available on its multiple option facility agreement. See Note 6 of the Consolidated Financial Statements for further details concerning the Company's short-term borrowings. NIKE's ratio of debt to equity at May 31, 1987 and 1986 was .5:1 compared to .9:1 at May 31, 1985. Management believes that currently available resources, together with funds generated by operations, will adequately finance 1988 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

Portland, Oregon

July 21, 1987

*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, 1987 and 1986, 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, 1987, 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.

Pricewaterhouse

NIKE, Inc.
Consolidated Statement of Income

	Year Ended May 31,		
	1987	1986	1985
	<i>(in thousands, except per share data)</i>		
Revenues	\$877,357	\$1,069,222	\$946,371
Costs and expenses:			
Cost of sales	596,662	722,923	697,219
Selling and administrative	204,742	209,219	204,834
Interest (Notes 6 and 7)	8,475	15,820	21,933
Other (income) expense (Notes 4, 8, 11, and 12)	(6,201)	11,243	(13)
	803,678	959,205	923,973
Income before provision for income taxes and minority interest	73,679	110,017	22,398
Provision for income taxes (Note 8)	37,800	57,760	15,630
Income before minority interest	35,879	52,257	6,768
Minority interest	—	(6,954)	(3,502)
Net income	\$ 35,879	\$ 59,211	\$ 10,270
Net income per common share (Note 1)	\$.93	\$ 1.55	\$.27
Average number of common and common equivalent shares (Note 1)	38,393	38,179	37,893

NIKE, Inc.
Consolidated Balance Sheet

	May 31,	
	1987	1986
	<i>(in thousands)</i>	
Assets		
Current Assets:		
Cash and equivalents	\$126,867	\$ 18,138
Accounts receivable, less allowance for doubtful accounts of \$6,546 and \$5,596	184,459	185,633
Inventories (Note 2)	120,663	180,205
Deferred income taxes and purchased tax benefits (Note 8)	10,576	16,486
Prepaid expenses	6,717	9,163
Income taxes receivable	—	1,885
Total current assets	449,282	411,510
Property, plant and equipment (Notes 5 and 7)	96,988	89,517
Less accumulated depreciation	48,508	39,834
	48,480	49,683
Other assets (Note 1)	14,081	15,645
	\$511,843	\$476,838
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt (Note 7)	\$ 4,800	\$ 3,417
Notes payable to banks (Note 6)	43,145	61,634
Accounts payable (Note 6)	28,036	23,648
Accrued liabilities	39,792	44,027
Income taxes payable	8,309	—
Total current liabilities	124,082	132,726
Long-term debt (Note 7)	35,202	15,300
Non-current deferred income taxes and purchased tax benefits (Note 8)	14,242	11,666
Commitments and contingencies (Note 13)	—	—
Redeemable Preferred Stock (Note 9)	300	300
Shareholders' equity (Note 10):		
Common Stock at stated value:		
Class A convertible — 14,598 and 15,051 shares outstanding	174	180
Class B — 23,340 and 22,721 shares outstanding	2,705	2,697
Capital in excess of stated value	83,542	81,633
Unrealized translation loss	(1,938)	(507)
Retained earnings	253,534	232,843
	338,017	316,846
	\$511,843	\$476,838

NIKE, Inc.
Consolidated Statement of Changes in Financial Position

	Year Ended May 31,		
	1987	1986	1985
	<i>(in thousands)</i>		
Cash provided (used) by operations:			
Net income	\$ 35,879	\$59,211	\$10,270
Income charges (credits) not affecting cash:			
Depreciation	12,078	10,549	11,964
Deferred income taxes and purchased tax benefits	8,486	5,315	6,073
Minority interest	—	(6,954)	(3,502)
Other	2,494	1,225	1,161
Changes in certain working capital components:			
Decrease in inventory	59,542	6,080	94,345
(Increase) decrease in accounts receivable	1,174	29,164	(25,385)
Decrease in other current assets	4,331	691	2,550
Increase (decrease) in accounts payable accrued liabilities and income taxes payable	8,462	(31,930)	(28,815)
Cash provided by operations	<u>132,446</u>	<u>73,351</u>	<u>68,661</u>
Cash provided (used) by investing activities:			
Additions to property, plant and equipment	(11,874)	(16,723)	(21,724)
Disposals of property, plant and equipment	1,728	8,192	1,309
Liquidation of minority interest	—	9,353	—
Goodwill	—	(500)	(1,866)
Purchase of barter credits	—	—	(6,418)
Additions to other assets	(930)	(475)	(1,352)
Cash used by investing activities	<u>(11,076)</u>	<u>(153)</u>	<u>(30,051)</u>
Cash provided (used) by financing activities:			
Additions to long-term debt	30,352	8,975	3,725
Reductions in long-term debt including current portion	(10,678)	(1,745)	(4,817)
Decrease in notes payable to banks	(18,489)	(55,939)	(25,959)
Proceeds from exercise of options	1,911	3,432	750
Dividends—common and preferred	(15,188)	(15,085)	(14,974)
— minority shareholder	—	—	(51)
Cash used by financing activities	<u>(12,112)</u>	<u>(60,362)</u>	<u>(41,326)</u>
Effect of exchange rate changes on cash	(529)	(1,715)	1,413
Net increase (decrease) in cash	108,729	11,121	(1,303)
Cash and equivalents, beginning of year	<u>18,138</u>	<u>7,017</u>	<u>8,320</u>
Cash and equivalents, end of year	<u>\$126,867</u>	<u>\$18,138</u>	<u>\$ 7,017</u>

NIKE, Inc.
Consolidated Statement of Shareholders' Equity

	Common Stock				Capital in Excess of Stated Share	Unrealized Translation Gain (Loss)	Retained Earnings	Total
	Class A		Class B					
	Shares	Amount	Shares	Amount				
	<i>(in thousands)</i>							
Balance at May 31, 1984	17,659	\$211	19,612	\$2,660	\$17,457	\$ 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	—	—	—	—	—	—	(13,944)	(13,944)
Balance at May 31, 1985	16,628	199	20,763	2,673	78,206	1,873	188,717	271,669
Stock options exercised	210	3	171	2	3,427	—	—	3,432
Conversion to Class B Common Stock	(1,787)	(22)	1,787	22	—	—	—	—
Loss on translation of statements of foreign operations	—	—	—	—	—	(4,576)	—	(4,576)
Disposal of foreign subsidiary	—	—	—	—	—	2,196	—	2,196
Net income—year ended May 31, 1986	—	—	—	—	—	—	59,211	59,211
Dividends on redeemable Preferred Stock	—	—	—	—	—	—	(30)	(30)
Dividends on Common Stock	—	—	—	—	—	—	(15,055)	(15,055)
Balance at May 31, 1986	15,051	180	22,721	2,697	81,633	(507)	232,845	316,846
Stock options exercised	—	—	166	2	1,909	—	—	1,911
Conversion to Class B Common Stock	(453)	(6)	453	6	—	—	—	—
Loss on translation of statements of foreign operations	—	—	—	—	—	(1,431)	—	(1,431)
Net income—year ended May 31, 1987	—	—	—	—	—	—	35,879	35,879
Dividends on Redeemable Preferred Stock	—	—	—	—	—	—	(30)	(30)
Dividends on Common Stock	—	—	—	—	—	—	(15,158)	(15,158)
Balance at May 31, 1987	<u>14,598</u>	<u>\$174</u>	<u>23,340</u>	<u>\$2,705</u>	<u>\$85,542</u>	<u>\$1,938</u>	<u>\$253,534</u>	<u>\$338,017</u>

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 foreign operations have been consolidated for fiscal years ending in April.

Recognition of revenues:

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

Inventory valuation:

Inventories are stated at the lower of cost or market. Cost is determined using the last-in first-out (LIFO) method for substantially all inventories.

Property, plant and equipment and depreciation:

Property, plant and equipment are recorded at cost. Depreciation for financial reporting purposes is determined on a straight-line basis for buildings and leasehold improvements and principally on a declining balance basis for machinery and equipment.

Goodwill:

Included in other assets at May 31, 1987, net of amortization of \$2,117,000, is \$3,393,000 of purchase cost over the fair value of net assets of a business 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. The Company provides for income taxes currently on earnings of foreign subsidiaries expected to be repatriated.

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 reported.

Reclassifications:

Certain prior year amounts have been reclassified to conform with 1987 classifications.

Note 2—Inventories:

Inventories by major classification are as follows:

	May 31,	
	1987	1986
	<i>(in thousands)</i>	
Finished goods	\$138,783	\$177,913
Work-in-process	1,140	1,460
Raw materials	740	832
	<u>\$120,665</u>	<u>\$180,205</u>

The excess of replacement cost over LIFO cost approximated \$4,288,000 at May 31, 1987 and \$4,756,000 at May 31, 1986. During 1987 and 1986, certain inventory quantities were reduced resulting in liquidations of LIFO inventory quantities carried at different costs prevailing in prior years as compared with the cost of 1987 and 1986 purchases. For the years ended May 31, 1987 and 1986 the liquidation of LIFO inventory quantities resulted in an increase (decrease) to cost of sales of approximately \$1,452,000 and (\$1,088,000) and to earnings per share of (\$.02) and \$.01 respectively.

Note 3—Foreign currency forward contracts:

During fiscal year 1987 the Company entered into foreign currency forward contracts in anticipation of future movements in certain foreign exchange rates. At May 31, 1987, \$22.8 million in contracts maturing in January 1988 were outstanding. Gains or losses due to exchange rate movements are recorded currently and to date have not been significant.

Note 4—Sale of Japanese subsidiary:

In May 1986 the Company sold its 51% interest in its Japanese subsidiary and terminated its Japanese joint venture agreement. The transactions had a nominal effect on after tax income, the components of which are included in other expense and the provision for income taxes. The subsidiary had total assets of \$71,000,000 at the time of sale. For the two years ended May 31, 1986 and 1985 total revenues for this subsidiary included in the consolidated statement of income were \$42,000,000 and \$65,000,000; NIKE's share of the net loss included in operations amounted to \$7,345,000 and \$3,650,000 for the years ended 1986 and 1985. The Company continues to market its products in Japan through a licensing agreement.

Note 5—Property, plant and equipment:

Property, plant and equipment includes the following:

	May 31,	
	1987	1986
	<i>(in thousands)</i>	
Land	\$32,206	\$11,979
Buildings	7,773	7,055
Machinery and equipment	66,752	63,302
Leasehold improvements	7,452	7,181
Construction in process	2,805	—
	<u>96,988</u>	<u>89,517</u>
Less accumulated depreciation	48,508	39,834
	<u>\$48,480</u>	<u>\$49,683</u>

Included with machinery and equipment are capital equipment leases of \$1,928,000 and \$8,356,000 at May 31, 1987 and 1986. Amortization of capital equipment leases aggregated \$987,000 and \$6,018,000 at May 31, 1987 and 1986, and is included with accumulated depreciation.

Note 6—Short-term borrowings and credit lines:

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

	Banks		NIAC
	Domestic Operations	Foreign Operations (in thousands)	
<i>At May 31, 1987:</i>			
Total borrowings	—	\$43,145	\$7,353
Interest rate	—	7½%	7¾%
<i>At May 31, 1986:</i>			
Total borrowings	\$19,467	\$42,167	\$3,906
Interest rate	7½%	8¾%	8%

At May 31, 1987, the Company had no outstanding borrowings under its \$100 million unsecured multiple option facility with nine banks. This agreement contains optional borrowing alternatives consisting of a committed revolving loan facility, an uncommitted short-term advance facility and an uncommitted eurozone facility. The interest rate charged on this agreement is determined by the borrowing option and is based on the London Interbank Offered Rate (LIBOR). The borrowing rate under the committed revolving loan facility is LIBOR plus ½%. The agreement provides for annual fees of .15% of the total commitment plus fees based upon usage under the committed revolving loan facility.

At May 31, 1986 the Company had \$10,000,000 in outstanding borrowings on its \$70,000,000 unsecured domestic revolving credit agreement with a group of four commercial banks. Total domestic borrowings also included \$9,467,000 at May 31, 1986 under unsecured, uncommitted short-term credit facilities with several banks.

The Company has outstanding loans at interest rates at various spreads above the banks' cost of funds for financing foreign operations. Certain of these loans are secured by accounts receivable and inventory.

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 ½%.

Note 7—Long-term debt:

Long-term debt includes the following:

	May 31,	
	1987	1986
	<i>(in thousands)</i>	
8.45% unsecured term loan, due 1993	\$25,000	\$ —
9.45%-11.7% notes payable, due through 1990	8,354	10,135
8.25% capital equipment purchase agreement payable in installments through 1991	3,386	3,779
8.25%-13.75% capital equipment lease obligations, due through 1991	1,467	2,324
12.5% note payable, secured by certain property, plant and equipment, payments due semi-annually to 1990	1,575	1,826
Other	220	653
Total	40,002	18,717
Less current maturities	4,800	3,417
	<u>\$35,202</u>	<u>\$15,300</u>

The \$25 million term loan agreement requires, among other things, the maintenance of specified financial ratios and balances and contains limits on the amount of investments and sales of assets.

Amounts of long-term debt payable during the five years following May 31, 1987 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>			
1988	\$ 4,427	\$ 492	\$ (119)	\$ 4,800
1989	1,354	468	(61)	1,761
1990	6,338	468	(52)	6,754
1991	1,334	291	(22)	1,603
1992	82	2	—	84
Later Years	25,000	—	—	25,000
	<u>\$38,535</u>	<u>\$1,721</u>	<u>\$(824)</u>	<u>\$40,002</u>

Note 8—Income taxes:

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

	Year Ended May 31,		
	1987	1986	1985
	<i>(in thousands)</i>		
Income before income taxes and minority interest:			
United States	\$44,315	\$107,424	\$24,838
Foreign	29,364	2,593	(2,440)
	<u>\$73,679</u>	<u>\$110,017</u>	<u>\$22,398</u>

Provision for income taxes:

Current:			
United States			
Federal	\$16,172	\$ 42,580	\$10,409
State	3,702	6,577	909
Foreign	6,030	3,354	(590)
	<u>25,904</u>	<u>\$ 52,511</u>	<u>\$10,728</u>
Deferred:			
United States			
Federal	11,910	5,484	4,425
State	(120)	(218)	34
Foreign	106	(17)	443
	<u>11,896</u>	<u>5,249</u>	<u>4,902</u>
	<u>\$37,800</u>	<u>\$ 57,760</u>	<u>\$15,630</u>

The provision for income taxes was reduced by investment tax credits of \$568,000 and \$321,000 for the years ended May 31, 1986 and 1985.

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

	Year Ended May 31,		
	1987	1986 (in thousands)	1985
Inventory adjustment to market	\$ (1,310)	\$ 2,931	\$ 2,492
Purchased tax benefits	4,311	4,475	4,734
Deferred compensation	622	(2,192)	(885)
Discount of barter credits	(491)	(1,732)	(1,290)
Undistributed earnings of foreign subsidiaries	8,087	2,444	838
Other, net	677	(677)	(987)
	<u>\$11,896</u>	<u>\$5,249</u>	<u>\$4,902</u>

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate follows:

	Year Ended May 31,		
	1987	1986 (in thousands)	1985
U.S. Federal statutory rate	46.0%	46.0%	46.0%
State income taxes, net of federal benefit	2.4	3.0	4.6
Recalculation of purchased tax benefit liability	(2.3)	—	—
Foreign losses providing no tax benefits	.8	2.7	15.8
Taxes on foreign earnings	1.0	0.1	1.8
Investment tax credit	—	(.5)	(1.4)
Other, net	3.4	1.2	3.0
Effective income tax rate	<u>51.3%</u>	<u>52.5%</u>	<u>69.8%</u>

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

Year Ended May 31,	Tax Basis (in thousands)	Book Basis
1988	\$ 291	\$ 233
1989	573	357
1990	47	1,035
1991	3,982	3,041
1992	165	143
1993	365	313
unlimited	<u>6,271</u>	<u>5,565</u>
	<u>\$11,694</u>	<u>\$10,687</u>

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

During 1982, the Company purchased future tax benefits for \$15,277,000. Tax benefits of \$8,194,000 in excess of the purchase price have been recognized as of May 31, 1987 and are classified as a long-term liability.

In November 1986, the Company recognized \$3,700,000 in non-taxable other income as a result of recalculating the effect of the 1986 Tax Reform Act on its purchased tax benefit liability:

Note 9—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, 1987. 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 the 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 the sale or assignment of the NIKE trademark for athletic footwear sold in the United States.

Note 10—Common Stock:

The authorized number of shares of Class A Common Stock no par value and Class B Common Stock no par value are 20,000,000 and 50,000,000 respectively. Each share of Class A Common Stock is convertible into one share of Class B Common Stock. Voting rights of Class B Common Stock are limited in certain circumstances with respect to the election of directors.

The Company's Employee Incentive Compensation Plan (Option Plan) provides for the issuance of a maximum of 1,680,000 shares of the Company's Common Stock. 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. 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.

The following summarizes the Option Plan transactions for the two years ended May 31, 1987:

	Shares (in thousands)	Option Price Per Share (\$)
Options outstanding June 1, 1985	918	9.25 to 19.75
Exercised	(172)	9.50 to 19.75
Surrendered	(47)	9.50 to 19.75
Options outstanding May 31, 1986	699	9.25 to 19.75
Exercised	(166)	9.25 to 19.75
Surrendered	(91)	9.25 to 19.75
Options outstanding May 31, 1987	<u>442</u>	<u>9.50 to 19.75</u>
Options exercisable at May 31:		
1986	202	9.25 to 19.75
1987	148	9.50 to 19.75

Compensation agreements with three non-employee directors provide these directors with the right to purchase up to 720,000 shares of the Company's Class A Common Stock at \$.417 per share. The estimated fair market value of these shares at the date granted was \$6.25 per share aggregating \$4,500,000. During the years ended May 31, 1986, 1985 and 1981 certain directors exercised options for 210,000, 120,000 and 72,000 shares, respectively. At May 31, 1987 options for 102,000 shares were vested and unexercised. The rights to purchase an additional 72,000 of these shares will vest in October of each of the years 1987 through 1989 as long as the directors serve in an advisory capacity during that period and meet other specified conditions. All purchase rights must be exercised by October 1994. The Company is recognizing compensation expense of \$4,200,000 over the nine year vesting period through October 1989.

In September 1983, the Company granted options to purchase 10,000 shares of Class B Common Stock to two directors at an exercise price of \$16.25 per share. During 1985 the two directors were granted options for an additional 20,000 shares of Class B Common Stock exercisable at 9.50 per share and the option price of the original 10,000 options granted was changed to \$9.50 per share. Each grant of options vests over a five year period and expires from 1993 to 1995. At May 31, 1987, 32,000 shares were exercisable.

Note 11—Profit sharing plan:

The Company has 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. Contributions of \$1,300,000, \$2,000,000 and \$300,000 to the plan are included in other expense in the consolidated financial statements for the years ended May 31, 1987, 1986, and 1985.

Note 12—Interest income:

Included in other (income) expense for the three years ended May 31, 1987, 1986 and 1985 is interest income of \$7,230,000, \$3,670,000 and \$1,448,000.

Note 13—Commitments and contingencies:

The Company leases space for its offices, warehouses and retail stores under leases expiring from one to thirteen years after May 31, 1987. Rent expense aggregated \$11,608,000, \$13,602,000 and \$13,410,000 for the years ended May 31, 1987, 1986, and 1985 respectively. The following is a schedule of minimum future rentals on noncancelable operating leases as of May 31, 1987 (in thousands):

Year Ending May 31,	
1988	\$11,368
1989	9,748
1990	6,919
1991	5,547
1992	4,731
Later years	20,259
Total minimum future rentals	\$58,572

In June 1983, the Company was served in a lawsuit filed by an individual against the Company and certain present and past employees of the Company seeking an unspecified amount, stated by the Complaint to be in excess of \$10 million in general damages and \$25 million in punitive damages for alleged breaches of contract and tortious conduct surrounding the Company's termination of a business relationship with the individual. Most of the claims have been dismissed on procedural grounds, and the Company believes the remaining claims are without merit and will not result in a material loss to the Company.

Note 14—Operations by geographic areas:

The Company operates predominantly in one industry segment, that being the design, production and marketing of athletic footwear, apparel and accessories. Information about the Company's operations in the United States and foreign areas is presented below. Inter-geographic revenues and assets have been eliminated to arrive at the consolidated amounts. Expenses and assets not identifiable with the operations of a specific geographic segment have been listed separately.

	Year Ended May 31,		
	1987	1986 <i>(in thousands)</i>	1985
Revenues from unrelated entities			
United States	\$641,603	\$ 816,562	\$730,096
Europe	191,358	166,294	108,724
Japan	—	42,420	64,088
Other foreign	44,396	43,946	43,463
	<u>\$877,357</u>	<u>\$1,069,222</u>	<u>\$946,371</u>
Inter-geographic revenues			
United States	\$ 2,043	\$ 3,318	\$ 6,955
Europe	—	1,610	5,450
Other foreign	5,540	38,860	42,046
	<u>\$ 7,583</u>	<u>\$ 43,788</u>	<u>\$ 54,451</u>
Total revenues			
United States	\$643,646	\$ 819,880	\$737,051
Europe	191,358	167,904	114,174
Japan	—	42,420	64,088
Other foreign	49,936	82,806	85,509
Less inter-geographic revenues	(7,583)	(43,788)	(54,451)
	<u>\$877,357</u>	<u>\$1,069,222</u>	<u>\$946,371</u>
Operating income			
United States	\$ 48,755	\$ 120,827	\$ 43,641
Europe	27,529	17,857	9,067
Japan	—	(1,331)	229
Other foreign	2,723	5,663	(1,873)
Less corporate, interest and other (income) expense and eliminations	(5,328)	(32,999)	(28,666)
	<u>\$ 73,679</u>	<u>\$ 110,017</u>	<u>\$ 22,398</u>
Assets			
United States	\$288,689	\$ 353,037	\$349,346
Europe	85,869	79,957	43,772
Japan	—	—	61,644
Other foreign	25,063	40,018	34,060
Total identifiable assets	399,621	473,012	489,022
Corporate cash and eliminations	112,222	5,826	14,944
Total assets	<u>\$511,843</u>	<u>\$ 478,838</u>	<u>\$503,966</u>

Directors

William J. Bowerman
*Deputy Chairman of the Board of Directors
and Senior Vice President, NIKE, Inc.
Eugene, Oregon*

Bill K. Conway
*Visiting Scholar
Massachusetts Institute of Technology
Boston, Massachusetts*

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

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

Delbert J. Hayes (1)
*Executive Vice President, NIKE, Inc.
Beaverton, Oregon*

Douglas G. Houser (2) (3)
*Assistant Secretary, NIKE, Inc.
Bornier—Bullivant, Houser, Bailey,
Praderegas & Hoffman, Attorneys
Portland, Oregon*

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

Philip H. Knights (1)
*Chairman of the Board
and Chief Executive Officer, NIKE, Inc.
Beaverton, Oregon*

Thomas O. Paine
*Chairman, Thomas Paine Associates
Los Angeles, California*

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

(1) Member—Executive Committee

(2) Member—Audit Committee

(3) Member—Compensation and Stock Option Committee

Officers

Philip H. Knight
*Chairman of the Board
and Chief Executive Officer*

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

Jack L. Joyce
Vice President

Ronald E. Nelson
Vice President

George E. Porter
Vice President—Finance

Dale N. Wahl
Treasurer

Lindsay D. Stewart
Assistant Secretary and Corporate Counsel

A. Thomas Niebergall
Assistant Secretary

Locations**Corporate Headquarters**

3900 S.W. Marmar Blvd.
Beaverton, Oregon 97005

United States Sales and Distribution Centers

8400 Winchester Blvd.
Menlo Park, Tennessee 38138

2455 N.W. Nicolai Street
Portland, Oregon 97210

150 Ocean Road
Greenland, New Hampshire 03840

Foreign Sales Administrative Office

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

Canada Sales and Marketing Office

NIKE Canada Ltd.
2445 Carow Avenue
Comptons, British Columbia
Canada V3K 6A9

European Sales and Marketing Offices

Austria	Germany
Mayerstr. 341	Feldstrasse 16
5023 Salzburg	6108 Weierstadt
Austria	West Germany

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

France	Switzerland
7, BLD D'Orny	17230 Stansberg
Rue D'Activites de Cergy	Sweden
St. Christophe BP 8237	
95801 Cergy Pontoise Cedex	
France	

Italy
3, Piazza Mida
20121 Milan, Italy

NIKE-owned Shoe Component Manufacturing Facility

Lot 47, Kulim Industrial Estate
Kulim, South Kedah
Malaysia

Shareholders' Information**Corporate Office**

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(503) 641-6453

Annual Meeting

10 a.m., September 21, 1987
Multnomah Athletic Club
1849 S.W. Salmon
Portland, Oregon 97205

NIKE Advisory Council

Maurice Lazzara
Boston, Massachusetts

Independent Accountants

Pricewaterhouse
101 S.W. Main Street, Suite 1700
Portland, Oregon 97204

Registrar and Transfer Agent

United States National Bank of Oregon
309 S.W. 6th Avenue
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 Investor Relations at the Corporate Office.



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NIKE, Inc. is an equal opportunity employer.



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