

## Management Discussion and Analysis

### HIGHLIGHTS

- Net income increased in fiscal year 2000 to \$579.1 million from \$451.4 million in the prior year.
- Fiscal year 2000 diluted earnings per share increased by 32%, from \$1.57 to \$2.07.
- Fiscal year 2000 revenues increased 2.5% to \$9.0 billion, compared to \$8.8 billion in fiscal year 1999.
- Gross margins improved as a percentage of revenues to 39.9% from 37.4% in fiscal year 1999.

### RESULTS OF OPERATIONS

#### FISCAL 2000 COMPARED TO FISCAL 1999

Net income increased by \$127.7 million, or 28.3% over the prior year. Excluding the impact of a restructuring charge in fiscal 1999, net income advanced \$100.4 million, or 21.0%. The increase was primarily due to an improved gross margin and lower effective tax rate. The increase in net income was partially offset by higher selling and administrative expenses, which in large part reflected significant investments in new supply chain systems, internet initiatives and new retail stores, discussed further below. Diluted earnings per share increased 31.8%, more rapidly than net income, as a result of share repurchases during the year. Excluding the impact of the fiscal 1999 restructuring charge, diluted earnings per share increased 24.7%.

Total NIKE revenues increased by 2.5% in fiscal 2000. Revenues in the United States region were flat as compared to last year while revenues in our international regions increased 6.9%. Had the U.S. dollar remained constant with the prior year, these international revenues would have increased 11.9%, and consolidated revenues would have advanced 4.5%. Revenue growth in the United States was slowed by a contraction of athletic sportswear retail space, which we expect to continue to affect our revenue growth during the first part of fiscal 2001. U.S. footwear revenues rose 3.3%, reflecting slightly higher volumes on average prices that were relatively equal to last year. Apparel revenues, however, decreased by 10.7% as demand for in-line products fell, and cleaner inventories in fiscal 2000 resulted in fewer closeout sales than in fiscal 1999, as discussed further below.

In fiscal 2000, revenues from our international regions represented 42.9% of total company revenues and grew significantly during the year. For the sixth straight year, revenues in our European region increased. Fiscal 2000 revenues in Europe increased over fiscal 1999 by 4.2% to \$2,350.9 million, a 14.9% increase in constant dollars. Fiscal 2001 European revenues may be negatively affected by a weaker euro currency compared to the U.S. dollar. In our Asia Pacific region, revenues grew 13.1%, a 4.7% increase in constant dollars. The Americas region, which includes Canada, Central and South America, and Africa, grew revenues 8.5%, 10.6% in constant dollars.

The breakdown of revenues is as follows:

(in millions)

<b>MAY 31,</b>	<b>2000</b>	<b>1999</b>	<b>% CHG</b>	<b>1998</b>	<b>% CHG</b>
USA Region					
Footwear	\$3,351.2	\$3,244.6	3.3%	\$3,498.7	(7.3)%
Apparel	1,154.4	1,293.4	(10.7)%	1,450.2	(10.8)%
Equipment and other	226.5	212.7	6.5%	224.2	(5.1)%
Total USA	4,732.1	4,750.7	(0.4)%	5,173.1	(8.2)%
Europe Region					
Footwear	1,268.6	1,182.7	7.3%	1,266.6	(6.6)%
Apparel	1,021.0	1,005.1	1.6%	795.9	26.3%
Equipment and other	61.3	68.0	(9.9)%	33.6	102.6%
Total Europe	2,350.9	2,255.8	4.2%	2,096.1	7.6%
Asia Pacific Region					
Footwear	557.0	455.3	22.3%	790.7	(42.4)%
Apparel	371.2	366.0	1.4%	453.4	(19.3)%
Equipment and other	26.9	23.2	15.9%	9.8	136.7%
Total Asia Pacific	955.1	844.5	13.1%	1,253.9	(32.6)%
Americas Region					
Footwear	384.7	335.8	14.6%	403.0	(16.7)%
Apparel	152.0	158.4	(4.0)%	186.2	(14.9)%
Equipment and other	13.5	12.9	4.7%	9.8	31.5%
Total Americas	550.2	507.1	8.5%	599.0	(15.3)%
Total NIKE brand	8,588.3	8,358.1	2.8%	9,122.1	(8.4)%
Other brands	406.8	418.8	(2.9)%	431.0	(2.8)%
Total Revenues	\$8,995.1	\$8,776.9	2.5%	\$9,553.1	(8.1)%

Worldwide futures and advance orders for NIKE brand athletic footwear and apparel scheduled for delivery from June through November 2000 were 3% higher than such orders booked in the comparable period of fiscal 1999. The percentage growth in these orders is not necessarily indicative of our expectation of revenue growth in subsequent periods. This is because the mix of orders can shift between advance/futures and at-once orders. In addition, exchange rate fluctuations as well as differing levels of order cancellations can cause differences in the comparisons between future orders and actual revenues.

In fiscal 2000, our gross margin percentage improved 250 basis points, from 37.4% to 39.9%. The key factors in the improvement of margins were as follows:

- 1) Increased margins on in-line products, particularly in apparel and equipment.
- 2) Reduced levels of lower margin closeout sales, reflecting lower inventories of closeout, out-of-season product.
- 3) Higher margins on closeout sales, driven by the expansion of our network of outlet stores.

We will continue to focus on managing the level of closeout inventories and decreasing product and distribution costs through sourcing and supply chain efficiencies in an effort to sustain the improvement in our gross margin percentage. However, since our products sold in the European region are purchased primarily with U.S. dollars, we expect that our fiscal 2001 gross margin percentage may be negatively affected by the weakening of the euro against the U.S. dollar, relative to fiscal 2000.

Selling and administrative expenses increased 7.4% in fiscal 2000 to \$2,606.4 million. Investments in initiatives designed to create future revenues and profits drove much of the increase:

- 1) We opened 27 new retail outlets during fiscal 2000. As previously mentioned, these outlets allow us to achieve improved pricing margins on closeout sales.
- 2) We invested in developing business-to-consumer and business-to-business e-commerce, both in an effort to generate future revenue growth as well as to enhance company productivity.
- 3) We continued to invest in operational systems and processes. The most significant project in this area is our supply chain initiative, which is intended to improve cash flow by reducing inventories, to increase our responsiveness to market conditions and to lower closeouts and distribution costs. We are also implementing new warehouse management and product development systems.
- 4) We converted several markets from independent distributorships to direct NIKE ownership. These markets included Brazil, the Philippines, Slovenia, Croatia and Hungary.

Higher bad debt expense as compared to last year, due to the bankruptcy filing of one of our U.S. customers, also affected selling and administrative expenses in fiscal 2000.

Interest expense increased by 2.0% during the year to \$45.0 million. This increase reflected incremental interest costs due to significantly higher average debt balances than in fiscal 1999. (Much of this increase was offset by the effect of lower interest rates outside of the U.S. and the effect of our restructured operating agreement with our trading partner, Nissho Iwai American Corporation (NIAC), which reduced the interest rate on product purchases financed by NIAC.) See further discussion of debt balances under Liquidity and Capital Resources below.

Other income/expense was a net expense of \$23.2 million in fiscal 2000 as compared to a net expense of \$21.5 million in fiscal 1999. In both years, this amount consisted primarily of interest income, profit sharing expense, goodwill amortization, foreign exchange conversion gains and losses and asset disposal gains and losses. Last year, other income/expense also included a \$15.0 million credit related to the change in accounting for substantially all inventories in the U.S. from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The change was not sufficiently material to require presentation of the cumulative effect or to restate comparable income statements as dictated by Accounting Principles Board Opinion No. 20.

Our full year effective tax rate was 37.0%, significantly lower than the prior year rate of 39.5%. This decrease was primarily due to reduced state taxes and the utilization of tax loss carryforwards in certain foreign operations that have recently turned profitable, where our effective tax rate is lower than in the United States.

#### FISCAL 1999 COMPARED TO FISCAL 1998

Despite an overall revenue decline, net income increased 13% in 1999 over 1998. An improved gross margin percentage (due to a lower level of closeout sales) and reduced selling and administrative expenses (due to operating cost reduction initiatives), along with a lower net restructuring charge in fiscal 1999 compared to the prior year, primarily drove this increase. Excluding both the 1999 and 1998 restructuring charges, our net income was relatively flat year on year.

Total NIKE brand revenues decreased 8% compared to fiscal 1998. This decrease was the first annual decrease in five years. Had this decrease been measured in dollars constant with that of the prior year, the net decrease would not have been materially different. The U.S., which represents our largest market segment, experienced the largest dollar reduction, decreasing \$422.4 million, or 8%. Non-U.S. NIKE brand revenues decreased \$341.6 million, or 9%, an 8% decrease had the dollar remained constant with that of the prior year. Revenues in Europe increased 8% (6% in constant dollars), driven by a 26% increase in Apparel. Apparel sales in Europe surpassed the \$1 billion mark for the first time. Asia Pacific declined 33% in total revenues (29% in constant dollars), due to the continued weak market conditions in that region. The Americas region, including the start up operations of the Africa region, decreased 15%, a 10% decline in constant dollars. The decrease in Other Brands was predominately due to reduced sales of in-line skating and roller hockey categories at Bauer NIKE Hockey.

Gross margins increased to 37.4% of revenues in fiscal 1999, up 90 basis points from the previous year. The increase over the prior year can be attributed to reduced levels of closeout product sales, which reflects our 1999 initiative to reduce the level of closeout inventories on hand. While sales of in-line product decreased 7%, our closeout sales decreased by 14%. As a result, despite the decline in our in-line business in fiscal 1999, in-line sales increased to 92.2% of our overall business, an increase of 60 basis points over the prior year. In addition, we sold a much greater percentage of our closeout product through our own factory outlets, which resulted in improved gross margins on close-out sales and lower reserves against our overall inventory. Aggressive selling of U.S. apparel closeout inventories, and the effects of the foreign exchange rates on non-U.S. sales, predominately in Europe, negatively affected gross margins.

Selling and administrative expenses decreased nearly \$200 million compared to fiscal year 1998, and totaled 27.6% of revenues, up slightly from 27.5% in the prior year. Key drivers of this reduction were the actions taken in fiscal year 1998 to reduce our overall cost structure, which resulted in a restructuring charge in quarter four of fiscal year 1998. Although total NIKE brand salaries and wages increased 2% over the prior year, wholesale business salaries and wages decreased 7%, driven by the headcount reductions which occurred as part of the restructuring activities. Offsetting this were increases in salaries and wages of retail operations, given the addition of 44 NIKE factory stores and 5 NIKETOWNS over 1999 and 1998. Other significant reductions to selling and administrative expenses were advertising costs, which were down 19%, and sports marketing expenses, which were down 4%.

The reduction in interest expense of \$15.9 million (or 26.5%) compared to 1998 was due primarily to lower levels of short term borrowings given decreased working capital throughout the year.

Other income/expense was a net expense of \$21.5 million in fiscal 1999. Included in this amount is a credit of \$15.0 million related to the change in accounting for substantially all inventories in the U.S. from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The change was effected in the fourth quarter of fiscal 1999 and was not sufficiently material to require presentation of the cumulative effect or to restate comparable income statements as dictated by Accounting Principles Board Opinion No. 20. Exclusive of this credit, other income/expense was a net expense of \$36.5 million, an increase over the prior year of \$20.9 million. The increase was primarily attributable to the losses incurred on the disposal of assets of \$14.3 million, most significantly related to production and planning software development costs that were abandoned. The remainder of other income/expense stayed relatively consistent with 1998 amounts.

#### FISCAL 1999 RESTRUCTURING CHARGE

During fiscal 1999, we incurred a \$60.1 million restructuring charge as a result of certain actions taken to better align our cost structure with expected revenue growth rates. As a result of the plans detailed below, we were able to remove approximately \$36 million from our cost structure.

The charge (shown below in tabular format) was primarily for costs of severing employees, including severance packages, lease abandonments and the write down of assets no longer in use. Two major areas that were affected by the reduction in force include our information technology functions, primarily in the U.S., as we shifted to an outsource agreement for certain areas, and European customer service and accounting, where we are in the process of consolidating functions from individual countries to our European headquarters. Outside of these two areas, employees were terminated from various other areas around the Company, including our Asia Pacific region. The original number of employees to be terminated was 1,291. As of May 31, 2000, 56 employees have found positions elsewhere in the Company and 1,143 have left the Company, leaving 92 still to be terminated.

The second major component of the 1999 charge was a write-off of certain equipment, hardware and software development costs at one of our U.S. distribution centers due to a change in strategy around how we flow product for a specific type of business.

Due to the change in the number of employees that will be terminated, \$1.4 million of the reserve has been reversed during the current fiscal year. The remaining accrual balance will be relieved throughout fiscal 2001 as leases expire and severance payments are completed.

Detail of the 1999 restructuring charge is as follows:

(in millions)

DESCRIPTION	CASH/NON-CASH	FY99 RESTRUCTURING CHARGE	FY99 ACTIVITY	RESERVE BALANCE AT 5/31/99	FY00 ACTIVITY	RESERVE BALANCE AT 5/31/00
Elimination of Job Responsibilities		\$ (39.9)	\$ 21.9	\$ (18.0)	\$ 14.5	\$ (3.5)
Severance packages	cash	(28.0)	11.7	(16.3)	12.9	(3.4)
Lease cancellations & commitments	cash	(2.4)	1.6	(0.8)	0.7	(0.1)
Write-down of assets	non-cash	(7.8)	7.8	—	—	—
Other	cash/non-cash	(1.7)	0.8	(0.9)	0.9	—
Change in warehouse distribution strategy		\$ (20.2)	\$ 20.2	—	—	—
Write-down of assets	non-cash	(20.2)	20.2	—	—	—
Effect of foreign currency translation		—	\$ 0.1	\$ 0.1	\$ (0.1)	—
Total		\$ (60.1)	\$ 42.2	\$ (17.9)	\$ 14.4	\$ (3.5)

#### FISCAL 1998 RESTRUCTURING CHARGE

During the fourth quarter of fiscal 1998, we recorded a restructuring charge of \$129.9 million as a result of certain of our actions to better align our overall cost structure and organization with planned revenue levels. As a result of the specific plans described below, we were able to remove approximately \$100 million from our cost structure. These savings were predominantly due to reduced wage-related costs, reduced carrying cost of property, plant and equipment, reduced rent charges (associated with office and expatriate housing) and other miscellaneous savings.

No increases to the 1998 restructuring charge have been made. A total of \$15 million was reversed in fiscal 1999. During fiscal 2000 continuing cash payments were made against the reserve liability. In addition, \$1.1 million of the reserve was reversed due to changes in outstanding lease commitments. The remaining accrual will be relieved in early fiscal 2001, as leases expire and severance payments, some of which are paid on a monthly basis, are completed.

The restructuring activities (shown below in tabular format) primarily related to the following:

**The elimination of job responsibilities company-wide.** Employees were terminated from all regions and almost all areas of NIKE, including marketing, sales and administrative areas. Related charges include severance packages, both cash payments made directly to terminated employees as well as outplacement services, lease cancellations and commitments, for both excess office space and expatriate employee housing, and the write-down of assets no longer in use. Such assets, which include office equipment and expatriate employee housing and furniture have been sold or abandoned as of May 31, 2000. A total of 1,039 employees were terminated as part of the plan, of which 1,034 have been paid and have left NIKE as of May 31, 2000. The remaining five will receive their severance packages and leave during fiscal 2001.

**Downsizing of the Asia Pacific Headquarters in Hong Kong.** We made the decision to reduce the size of the Asia Pacific headquarters' operations and to relocate the regional headquarter responsibilities to our worldwide headquarters in the United States. Included in the restructuring charge are costs associated with the termination of employees, lease cancellations and commitments and the write-down of assets no longer in use. Such assets have been sold or abandoned as of May 31, 2000. A total of 118 employees were terminated as part of the plan. All of them have left and been paid their severance as of May 31, 2000.

**Downsizing of the Japan distribution center.** We are in the process of constructing a new distribution center in Japan. Due to the economic downturn in the Asia Pacific region and the impact on our business in Japan, the forecasted volume of inventories and product flow decreased significantly from the original plans. Because of this, we redesigned the distribution center to efficiently accommodate new forecasted volumes of inventories and product flow. The costs included in the restructuring charge related to those costs incurred on the construction of the center that will have no use under the redesigned facility.

**Cancellation of endorsement contracts.** As a result of the downturn in our business, we have refocused our marketing along core product categories. We went through a process of reviewing all endorsement contracts in non-core product categories and the charge included the final settlements for those contracts where termination agreements with endorsees were reached, releasing the endorsees from all contractual obligations. The final outstanding payment is expected to be made in fiscal 2001.

**Exiting certain manufacturing operations at Bauer NIKE Hockey subsidiary.** The charge related to the decision to exit certain manufacturing operations at Bauer NIKE Hockey and consisted of machinery and equipment that has been sold or abandoned as of May 31, 2000, as well as the disposal of two operating plants. The two operating plants have been disposed of as of May 31, 2000. As a result of the reduced level of manufacturing operations, 51 employees were terminated, all of which have left as of May 31, 2000.

Detail of the 1998 restructuring charge is as follows:

(in millions)

DESCRIPTION	CASH/NON-CASH	FY98 RESTRUCTURING CHARGE	FY99 ACTIVITY	RESERVE BALANCE AT 5/31/99	FY00 ACTIVITY	RESERVE BALANCE AT 5/31/00
Elimination of Job Responsibilities		\$ (49.8)	\$ 46.5	\$ (3.3)	\$ 2.7	\$ (0.6)
Severance packages	cash	(29.1)	28.2	(0.9)	0.6	(0.3)
Lease cancellations & commitments	cash	(10.8)	8.4	(2.4)	2.1	(0.3)
Write-down of assets	non-cash	(9.6)	9.6	—	—	—
Other	cash	(0.3)	0.3	—	—	—
Downsizing the Asia Pacific Headquarters						
In Hong Kong		\$ (13.1)	\$ 13.0	\$ (0.1)	\$ 0.1	—
Severance packages	cash	(4.6)	4.6	—	—	—
Lease cancellations & commitments	cash	(5.5)	5.4	(0.1)	0.1	—
Write-down of assets	non-cash	(3.0)	3.0	—	—	—
Downsizing the Japan Distribution Center		\$ (31.6)	\$ 30.5	\$ (1.1)	\$ 1.1	—
Write-off of assets	non-cash	(12.5)	12.5	—	—	—
Software development costs	cash/non-cash	(19.1)	18.0	(1.1)	1.1	—
Cancellation of Endorsement Contracts	cash	\$ (5.6)	\$ 5.3	\$ (0.3)	\$ 0.1	\$ (0.2)
Exiting Certain Manufacturing Operations at Bauer NIKE Hockey		\$ (22.7)	\$ 21.7	\$ (1.0)	\$ 1.0	—
Write-down of assets	non-cash	(14.7)	14.7	—	—	—
Divestiture of manufacturing facilities	non-cash	(5.2)	5.2	—	—	—
Lease cancellations & commitments	cash	(1.6)	0.9	(0.7)	0.7	—
Severance packages	cash	(1.2)	0.9	(0.3)	0.3	—
Other		\$ (7.1)	\$ 6.4	\$ (0.7)	\$ 0.7	—
Cash	cash	(0.6)	0.6	—	—	—
Non-cash	non-cash	(6.5)	5.8	(0.7)	0.7	—
Effect of foreign currency translation		—	\$ 0.2	\$ 0.2	\$ (0.2)	—
<b>Total</b>		<b>\$(129.9)</b>	<b>\$123.6</b>	<b>\$ (6.3)</b>	<b>\$ 5.5</b>	<b>\$ (0.8)</b>

#### **EURO CONVERSION**

On January 1, 1999, eleven of the fifteen member countries of the European Union established permanent, fixed conversion rates between their existing currencies and the European Union's new common currency, the euro. During the transition period ending December 31, 2001, public and private parties may pay for goods and services using either the euro or the participating country's legacy currency. Beginning January 1, 2002, euro denominated bills and coins will be issued, with the legacy currencies being completely withdrawn from circulation on June 30, 2002.

We have had a dedicated project team working on euro strategy since January 1998. We are in the process of making modifications to information technology systems including marketing, order management, purchasing, invoicing, payroll, and cash management. Many of our systems are already euro compliant. Our plan is to have most systems converted to euro compliance by the end of calendar year 2000, well ahead of the end of the transitional period.

We believe the introduction of the euro may create a move towards a greater level of wholesale price harmonization, although differing country costs and value added tax rates will continue to result in price differences at a retail level. Over the past year, we have been actively working to assess and, where necessary, adjust our pricing practices to operate effectively in this new environment. Also, currency exchange and hedging costs will likely be reduced due to the introduction of the euro.

The costs of adapting our systems and practices to the implementation of the euro are generally related to modification of existing systems, and are estimated to be approximately \$8 million. These costs are being expensed as incurred. NIKE believes that the conversion to the euro will not have a material impact on our financial condition or results of operations.

#### **RECENTLY ISSUED ACCOUNTING STANDARD**

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). In May 1999, the Financial Accounting Standards Board delayed the required implementation date by one year, making it effective for us on June 1, 2001. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No. 133" (FAS 138). FAS 133, as amended, will require us to recognize all derivatives on the balance sheet at fair value. Changes in the fair value of derivatives will be recorded in current earnings or other comprehensive income, depending on the intended use of the derivative and any resulting designation. The ineffective portion of all hedges will be recognized in current-period earnings. Management is in the process of determining the impact that the adoption of FAS 133 will have on NIKE's results of operations and financial position.

## LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations was \$759.9 million in fiscal 2000, a decrease of \$201.1 million from fiscal 1999, despite increased net income of \$127.7 million. The decrease in operating cash flow relative between years was driven by two main factors:

- 1) The current fiscal year began with lower, cleaner levels of inventories than the prior year, as a result of our efforts in fiscal 1999 to reduce our level of closeout inventories. This liquidation of closeout inventories generated operating cash flow in fiscal 1999 and did not recur in fiscal 2000.
- 2) Our level of operating activity has increased during fiscal 2000 as revenues grew as compared to last year. In contrast, our business experienced a slow-down in fiscal 1999. While last year's slow-down created operating cash flow from decreasing working capital, this year's acceleration of business has required us to use cash flow in order to build working capital to support increased operating activity.

We restructured our operating arrangement with NIAC in the first quarter of this year. The restructured agreement enables us, among other things, to take over financing of inventory purchases previously performed by NIAC. This results in the recording of U.S. inventory and a corresponding payable on our balance sheet 15 to 25 days earlier than in the past. Although the net working capital impact of this new arrangement is minimal, as of May 31, 2000, approximately \$114 million of inventory was in-transit to the U.S. and on our balance sheet, compared to zero at May 31, 1999. In addition, as a result of the restructuring, we are now responsible for issuing letters of credit for the purchases of inventories. At May 31, 2000, letters of credit of \$678.2 million were outstanding for the purchase of inventories.

Total cash flows used by investing activities during fiscal 2000 were \$440.0 million. The primary driver of this use was the purchase of property, plant and equipment throughout the year. The largest purchase was our distribution center in Japan, which we acquired with approximately \$100 million in cash and the assumption of \$109 million in long-term bank loans from the seller, NIAC. Other significant expenditures were related to the continued expansion of our world headquarters and additions to computer equipment and software, primarily driven by our supply chain initiative. During fiscal 2001, we will continue to incur expenditures related to these projects as well as to the opening and remodeling of retail stores, although we currently expect total capital expenditures to be less than the total for fiscal 2000.

Net cash flows used by financing activities in fiscal year 2000 were \$252.1 million, down from \$444.1 million in the prior year. The largest uses of cash were \$646.3 million for share repurchases and \$133.1 million in dividends paid to shareholders. These uses were offset by an increase in notes payable of \$505.1 million. The increase in notes payable was incurred primarily to fund capital expenditures, the financing of inventory purchases previously financed by NIAC, and share repurchases.

The share repurchases were part of a \$1 billion share repurchase program approved by our Board of Directors in December 1997. As of May 31, 2000, we had completed this \$1 billion program. Our Board of Directors has approved a second, four-year, \$1 billion share repurchase program beginning in fiscal 2001. We expect to fund the current program largely from operating cash flow. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Long-term debt levels increased during fiscal 2000 due to the assumption of long-term bank loans related to the purchase of the Japanese distribution facility discussed above. In fiscal year 1997, we filed a shelf registration with the Securities and Exchange Commission (SEC) for the sale of up to \$500 million of debt securities. Under this program, we issued \$300 million in notes, \$200 million in fiscal 1997, maturing December 1, 2003, and two \$50 million notes in fiscal year 1998, one maturing in three years and the other maturing in five years. The proceeds were swapped into Dutch guilders to obtain medium-term fixed rate financing to support the growth of our European operations. One of the \$50 million notes became payable on June 16, 2000 and was repaid. In February 1999, we filed a shelf registration with the SEC for the sale of up to \$500 million in debt securities, of which \$200 million had been previously registered but not issued under the fiscal year 1997 registration discussed above. We have not issued any new debt under this registration; thus, \$500 million remains available to be issued. Liquidity is also provided by our

commercial paper program, under which there was \$691.9 million and \$179.3 million outstanding at May 31, 2000 and May 31, 1999, respectively. We also maintain significant short and long-term lines of credit with banks.

Management currently believes that cash generated by operations, together with access to external sources of funds, will be sufficient to meet our operating and capital needs.

Dividends per share of common stock for fiscal 2000 were \$0.48, the same as in fiscal 1999. We have paid a dividend for every quarter since February 1984. Consistent with our practice in prior years, we will review our dividend policy at the meeting of our Board of Directors in November; however, based upon current projected earnings and cash flow requirements, we anticipate continuing to pay a quarterly dividend.

## MARKET RISK

In the normal course of business and consistent with established policies and procedures, we employ a variety of financial instruments to manage exposure to fluctuations in the value of foreign currencies and interest rates. It is our policy to utilize these financial instruments only where necessary to finance our business and manage such exposures; we do not enter into these transactions for speculative purposes.

We are exposed to foreign currency fluctuation as a result of our international sales, production and funding activities. Our foreign currency risk management objective is to protect cash flows from the adverse impact of exchange rate movements. We use forward exchange contracts and purchased options to hedge certain firm commitments and the related receivables and payables, including third party or intercompany transactions, and use purchased currency options to hedge certain anticipated but not yet firmly committed transactions. When we begin hedging exposures depends on the nature of the exposure and market conditions. We expect all firmly committed and anticipated transactions that are hedged to be recognized within 18 months. In addition, we use cross-currency swaps to hedge foreign currency denominated payments under intercompany loan agreements. Hedged transactions are principally denominated in European currencies, Japanese yen, Australian dollars and Canadian dollars.

Our financial performance is also exposed to movements in short and long-term market interest rates. Our objective in managing this interest rate exposure is to limit the impact of interest rate changes on earnings and cash flows, and to reduce overall borrowing costs. To achieve these objectives, we maintain a mix of medium and long-term fixed rate debt, commercial paper, bank loans and trade financing from NIAC.

### MARKET RISK MEASUREMENT

We monitor foreign exchange risk, interest rate risk and related derivatives using a variety of techniques including a review of market value, sensitivity analysis, and Value-at-Risk (VaR). Our market-sensitive derivative and other financial instruments, as defined by the SEC, are foreign currency forward contracts, foreign currency option contracts, cross-currency swaps, fixed interest rate U.S. dollar denominated debt and fixed interest rate Japanese yen denominated debt.

In fiscal 2000 we changed our VaR modeling technique from a variance/ co-variance technique to the "Monte Carlo" technique. This change occurred because we consider the Monte Carlo technique to be a more accurate and comprehensive method of calculating VaR. In fiscal year 2000 we also excluded the measurement of foreign exchange risk and interest rate risk for our cross-currency swaps and Japanese yen denominated debt from the VaR calculation. This change occurred because we consider a tabular presentation to provide the relevant and meaningful details of the foreign exchange risk and interest rate risk associated with these instruments. We have provided comparable VaR information for the preceding fiscal year with regard to both of these changes.

We use VaR to monitor the foreign exchange risk of our foreign currency forward and foreign currency option derivative instruments only. The VaR determines the maximum potential one-day loss in the fair value of these foreign exchange rate-sensitive financial instruments. The VaR model estimates assume normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the VaR computation. Our computations are based on the Monte Carlo simulation technique. This technique values our foreign currency instruments against a thousand randomly generated market paths and uses a complex model to simulate financial variables and related option prices in a manner similar to that used in options pricing theory. We have excluded anticipated transactions, firm commitments, cash balances and accounts receivable and payable denominated in foreign currencies from the VaR calculation, which certain of these instruments are intended to hedge.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value that we will incur, nor does it consider the potential effect of favorable changes in market rates. It also does not represent the full extent of the possible loss that may occur. Actual future gains and losses will differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

The estimated maximum one-day loss in fair value on NIKE's foreign currency sensitive financial instruments, derived using the VaR model, was \$9.5 million and \$9.3 million at May 31, 2000 and May 31, 1999, respectively. We believe that this amount is immaterial and that such a hypothetical loss in fair value of our derivatives would be offset by increases in the value of the underlying transactions being hedged.

Details of all other market-sensitive derivative and other financial instruments, including their fair values, are included in the table below. These instruments include our fixed interest rate Japanese yen denominated debt, fixed interest rate U.S. dollar denominated debt and cross-currency swaps. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. We have excluded the cross-currency swaps from the foreign exchange risk category because these instruments eliminate all foreign currency exposure in the cash flows of a Dutch guilder denominated inter-company loan. We have included these cross-currency swaps in the interest rate risk category. For the cross-currency swaps the table presents both the Dutch guilder swap payable and U.S. dollar swap receivable and the respective pay and receive interest rates. All information is presented in U.S. dollar equivalents, in millions, except interest rates.

MAY 31,	EXPECTED MATURITY DATE						TOTAL	FAIR VALUE
	2001	2002	2003	2004	2005	THEREAFTER		
<b>FOREIGN EXCHANGE RISK</b>								
Japanese Yen Functional Currency								
Long-term Japanese yen debt — Fixed rate								
Principal payments	—	—	—	—	—	\$219.8	\$219.8	\$220.4
Average interest rate	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	
<b>INTEREST RATE RISK</b>								
Japanese Yen Functional Currency								
Long-term Japanese yen debt — Fixed rate								
Principal payments	—	—	—	—	—	219.8	219.8	220.4
Average interest rate	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	
U.S. Dollar Functional Currency								
Long-term U.S. dollar debt — Fixed rate								
Principal payments	50.0	—	50.0	199.6	—	—	299.6	288.4
Average interest rate	6.4%	6.4%	6.4%	6.4%	—	—	6.4%	
Cross-currency swaps — Fixed Dutch guilder for fixed U.S. dollar								
Dutch guilder swap payable	40.9	—	40.9	145.8	—	—	227.6	226.6
U.S. dollar swap receivable	50.0	—	50.0	200.0	—	—	300.0	288.8
Average pay rate (Dutch guilder)	5.5%	5.5%	5.6%	5.6%	—	—	5.5%	
Average receive rate (U.S. dollars)	6.5%	6.5%	6.5%	6.5%	—	—	6.5%	

The fixed interest rate Japanese yen denominated debts were issued by and are accounted for by two of NIKE's Japanese subsidiaries. Accordingly, the monthly remeasurement of these instruments due to changes in foreign exchange rates is recognized in Accumulated Other Comprehensive Income upon the consolidation of these subsidiaries.

There was not a significant change in debt or cross-currency swap market risks during fiscal 2000 other than the addition of new fixed rate Japanese yen denominated debt. The weighted average interest rate on this 13,000 million yen debt is 2.2%. The U.S. dollar fair value of the fixed rate Japanese yen denominated debt that was outstanding at May 31, 1999 was \$84.9 million versus a carrying value of \$84.6 million at that date. The U.S. dollar fair values of the fixed rate U.S. dollar denominated debt, the Dutch guilder swap payable and the U.S. dollar swap receivable as of May 31, 1999 were \$296.8 million, \$268.3 million and \$297.3 million, respectively, versus carrying values of \$299.5 million, \$255.7 million and \$300 million, respectively, at that date.

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

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

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

## 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.

Our 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 outside directors. 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 NIKE 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

June 29, 2000

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 cash flows and of shareholders' equity present fairly, in all material respects, the financial position of NIKE, Inc. and its subsidiaries at May 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2000 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*PricewaterhouseCoopers LLP*