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 NIKE, Inc. and its subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated.

Recognition of Revenues

Wholesale revenues are recognized when title passes and the risks and rewards of ownership have passed to the customer, based on the terms of sale. Title passes generally upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale. Provisions for sales discounts and returns are made at the time of sale.

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and included in cost of sales.

Advertising and Promotion

Advertising production costs are expensed the first time the advertisement is run. Media (TV and print) placement costs are expensed in the month the advertising appears. A significant amount of the Company's promotional expenses result from payments under endorsement contracts. Accounting for endorsement payments is based upon specific contract provisions. Generally, endorsement payments are expensed uniformly over the term of the contract after giving recognition to periodic performance compliance provisions of the contracts. Prepayments made under contracts are included in Prepaid expenses and other current assets or Other assets depending on the length of the contract. Through cooperative advertising programs, we reimburse our retail customers for certain of their costs of advertising our products. We record these costs in selling and administrative expense at the point in time when we are obligated to our customers for the costs. This obligation may arise prior to the related advertisement being run. Total advertising and promotion expenses were $1,027.9 million, $998.2 million and $974.1 million for the years ended May 31, 2002, 2001 and 2000, respectively. Included in Prepaid expenses and other current assets and Other assets was $113.2 million and $122.3 million at May 31, 2002 and 2001, respectively, relating to prepaid advertising and promotion expenses.

Cash and Equivalents

Cash and equivalents represent cash and short-term, highly liquid investments with original maturities of three months or less.

Inventory Valuation

Inventories are stated at the lower of cost or market. Inventories are valued on a first-in, first-out (FIFO) or moving-average cost basis.

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 over 2 to 40 years and principally on a declining balance basis for machinery and equipment over 2 to 15 years. Computer software is depreciated on a straight-line basis over 3 to 10 years.

Identifiable Intangible Assets and Goodwill

At May 31, 2002 and 2001, the Company had patents, trademarks and other identifiable intangible assets recorded at a cost of $264.2 million and $218.6 million, respectively. The Company's excess of purchase cost over the fair value of net assets of businesses acquired (goodwill) was $333.6 million and $322.5 million at May 31, 2002 and 2001, respectively.

Identifiable intangible assets and goodwill are being amortized over their estimated useful lives on a straight-line basis over five to forty years. Accumulated amortization was $160.0 million and $143.8 million at May 31, 2002 and 2001, respectively. Amortization expense, which is included in other income/expense, was $15.7 million, $15.6 million and $18.5 million for the years ended May 31, 2002, 2001 and 2000, respectively.

Impairment of Long-Lived Assets

When events or circumstances indicate the carrying value of a long-lived asset may be impaired, the Company estimates the future undiscounted cash flows to be derived from the asset to assess whether or not a potential impairment exists. If the carrying value exceeds our estimate of future undiscounted cash flows, we then calculate the impairment as the excess of the carrying value of the asset over our estimate of its fair market value.

Foreign Currency Translation and Foreign Currency Transactions

Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive loss in shareholders' equity.

Transaction gains and losses generated by the effect of foreign exchange on recorded assets and liabilities denominated in a currency different from the functional currency of the applicable Company entity are recorded in other income/expense currently.

Net foreign currency transaction gains, which include transaction gains and losses referred to above as well as hedge results captured in revenues, cost of sales, selling and administrative expense and other income/expense, were $45.1 million, $129.6 million, and $36.1 million for the years ended May 31, 2002, 2001, and 2000 respectively.

Adoption of FAS 133

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (FAS 133) on June 1, 2001.

In accordance with the transition provisions of FAS 133, the Company recorded a one-time transition adjustment as of June 1, 2001 on both the consolidated statement of income and the consolidated balance sheet. The transition adjustment on the consolidated statement of income was a charge of $5.0 million, net of tax effect. This amount related to an investment that was adjusted to fair value in accordance with FAS 133. The transition adjustment on the consolidated balance sheet represented the initial recognition of the fair values of hedge derivatives outstanding on the adoption date and realized gains and losses on effective hedges for which the underlying exposure had not yet affected earnings. The transition adjustment on the consolidated balance sheet was an increase in current assets of $116.4 million, an increase in noncurrent assets of $87.0 million, an increase in current liabilities of $151.6 million, and an increase in other comprehensive income of approximately $56.8 million, net of tax effect. The majority of the $56.8 million recorded in other comprehensive income as of June 1, 2001 related to outstanding derivatives at that date. Because exchange rates on the transition date were different from those on the maturity dates of these derivatives and because

some contracts maturing during the year ended May 31, 2002 were entered into after the transition date, amounts ultimately reclassified to earnings during the year ended May 31, 2002, as described in note 12, are significantly different from this amount.

Accounting for Derivatives and Hedging Activities

The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual cash flows resulting from transactions in foreign currencies, including revenues, product costs, selling and administrative expenses, and intercompany transactions, including intercompany borrowings, will be adversely affected by changes in exchange rates. The Company does not hold or issue derivatives for trading purposes. It is the Company's policy to utilize derivatives to reduce foreign exchange risks where internal netting strategies cannot be effectively employed. Fluctuations in the value of hedging instruments are offset by fluctuations in the value of the underlying exposures being hedged.

Derivatives used by the Company to hedge the risks described above are forward exchange contracts, options and cross-currency swaps. These instruments protect against the risk that the eventual net cash inflows and outflows from foreign currency denominated transactions will be adversely affected by changes in exchange rates. The cross-currency swaps are used to hedge foreign currency denominated payments related to intercompany loan agreements. Hedged transactions are denominated primarily in European currencies, Japanese yen, Canadian dollars, Korean won, Mexican pesos, Australian dollars, and new Taiwan dollars. The Company hedges up to 100% of anticipated exposures typically twelve months in advance but has hedged as much as 32 months in advance. When intercompany loans are hedged, it is typically for their expected duration, which in some circumstances may be in excess of five years.

The Company is also exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates. Derivatives currently used by the Company to hedge this risk are receive-fixed, pay-variable interest rate swaps. See Note 5.

All derivatives are recognized on the balance sheet at their fair value. Unrealized gain positions are recorded as other current assets or other non-current assets. Unrealized loss positions are recorded as accrued liabilities or other non-current liabilities.

The fair values of the interest rate swap agreements are recorded as other non-current assets or other non-current liabilities. The unrealized gain or loss on the interest rate swaps is exactly offset by an unrealized loss or gain on the underlying long-term debt.

Substantially all foreign currency derivatives entered into by the Company qualify for and are designated as foreign-currency cash flow hedges, including those hedging foreign currency denominated firm commitments.

The interest rate swap agreements are designated as fair value hedges of the related long-term debt and meet the shortcut method requirements under FAS 133. Accordingly, interest expense on the related long-term debt is recorded based on the variable rates paid under the interest rate swap agreements, and changes in the fair values of the interest rate swap agreements exactly offset changes in the fair value of the long-term debt.

The Company considers whether any provisions in non-derivative contracts represent "embedded" derivative instruments as described in FAS 133. For the period ended May 31, 2002 the Company has concluded that no "embedded" derivative instruments warrant separate fair value accounting under FAS 133.

Changes in fair values of outstanding cash flow hedge derivatives that are highly effective are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. In most cases amounts recorded in other comprehensive income will be released to earnings some time after the maturity of the related derivative. The consolidated statement of income classification of

effective hedge results is the same as that of the underlying exposure. Results of hedges of revenue and product costs are recorded in revenue and cost of sales, respectively, when the underlying hedged transaction affects earnings. Results of hedges of selling and administrative expense are recorded together with those costs when the related expense is recorded. Results of hedges of anticipated intercompany transactions are recorded in other income/expense when the transaction occurs. Hedges of recorded balance sheet positions are recorded in other income/expense currently together with the transaction gain or loss from the hedged balance sheet position. Unrealized derivative gains and losses recorded in current and non-current assets and liabilities and amounts recorded in other comprehensive income are non-cash items and therefore are taken into account in the preparation of the consolidated statement of cash flows based on their respective balance sheet classifications.

The critical terms of the company's outstanding interest rate swap agreements exactly match the critical terms of the underlying debt. Therefore, under the shortcut provisions of FAS 133, the swaps are considered perfectly effective.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as foreign-currency cash flow hedges to either specific assets and liabilities on the balance sheet or specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive loss will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing future changes in the fair value in current-period earnings. Any hedge ineffectiveness is recorded in current-period earnings. Effectiveness is assessed based on forward rates.

Premiums paid on options are initially recorded as deferred charges. The Company assesses effectiveness on options based on the total cash flows method and records total changes in the options' fair value to other comprehensive income to the degree they are effective.

Income Taxes

United States income taxes are provided currently on financial statement earnings of non-U.S. subsidiaries expected to be repatriated. The Company determines annually the amount of undistributed non-U.S. earnings to invest indefinitely in its non-U.S. operations. The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets

and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities. See Note 6 for further discussion.

Earnings Per Share

Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive stock options and awards. See Note 9 for further discussion.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to fiscal year 2002 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Recently Issued Accounting Standards

The Company will adopt SFAS No. 142, "Goodwill and Other Intangible Assets" (FAS 142) on June 1, 2002. FAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be measured for impairment at least annually, or when events indicate that an impairment exists. As of the adoption date, amortization of outstanding goodwill and other indefinite-lived intangible assets will cease. As a result of the elimination of this amortization, other expense will decrease by approximately $13 million annually beginning in the quarter ended August 31, 2002.

As required by FAS 142, we will perform impairment tests on goodwill and other indefinite-lived intangible assets as of the adoption date. Thereafter, we will perform impairment tests annually and whenever events or circumstances indicate that the value of goodwill or other indefinite-lived intangible assets might be impaired. In connection with the FAS 142 indefinite-lived intangible asset impairment test, we will utilize the required one-step method to determine whether an impairment exists as of the adoption date. In connection with the FAS 142 transitional goodwill impairment test, we will utilize the required two-step method for determining goodwill impairment as of the adoption date.

We have estimated that we will likely incur a transitional impairment loss of approximately $270 million related to our Bauer NIKE Hockey and Cole Haan subsidiaries, reflecting that the fair values we have estimated for these subsidiaries are less than the carrying values including goodwill. This expected transitional impairment loss will be recognized as a cumulative effect of a change in accounting principle in our consolidated statement of income during the quarter ended August 31, 2002.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (FAS 121), and amends Accounting Principles Board Statement No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30). FAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. FAS 144 retains the fundamental provisions of FAS 121 for (a) recognition and measurement of

the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. This statement also retains APB 30's requirement that companies report discontinued operations separately from continuing operations. All provisions of this statement will be effective for the Company on June 1, 2003. It is not expected that the adoption of FAS 144 will have any impact on the Company's consolidated financial position or results of operations.

Note 2 — Inventories

Inventories by major classification are as follows:

	May 31, 2002	May 31, 2001
	(In millions)	
Finished goods	$1,348.2	$1,399.9
Work-in-progress	13.0	15.1
Raw materials	12.6	9.1
	$1,373.8	$1,424.1

Note 3 — Property, Plant and Equipment

Property, plant and equipment includes the following:

	May 31, 2002	May 31, 2001
	(In millions)	
Land	$ 178.3	$ 177.2
Buildings	739.9	695.4
Machinery and equipment	1,356.9	1,117.3
Leasehold improvements	394.2	391.9
Construction in process	72.4	171.0
	2,741.7	2,552.8
Less accumulated depreciation	1,127.2	934.0
	$1,614.5	$1,618.8

Capitalized interest expense incurred was $1.7 million, $8.4 million and $4.8 million for the years ended May 31, 2002, 2001 and 2000, respectively.

Note 4 — Short-Term Borrowings and Credit Lines:

Commercial paper outstanding, notes payable to banks, and interest-bearing accounts payable to Nissho Iwai American Corporation (NIAC) are summarized below:

	May 31,			
	2002		2001	
	Borrowings (In millions)	Interest Rate	Borrowings (In millions)	Interest Rate
Notes payable and commercial paper:				
U.S. operations	$339.2	1.82%	$710.0	4.07%
Non-U.S. operations	86.0	6.61%	145.3	6.50%
	$425.2		$855.3	
NIAC	36.3	2.62%	30.4	5.14%

At May 31, 2002 there was $338.3 million outstanding and at May 31, 2001 there was $710.0 million outstanding under our commercial paper program.

The Company purchases through NIAC certain athletic footwear and apparel it acquires from non-U.S. suppliers. These purchases are for the Company's operations outside of the U.S., Europe, and Japan. Accounts payable to NIAC are generally due up to 60 days after shipment of goods from the foreign port. The interest rate on such accounts payable is the 60 day London Interbank Offered Rate (LIBOR) as of the beginning of the month of the invoice date, plus 0.75%.

The Company has a $600.0 million, 364-day committed credit facility and a $500.0 million, multi-year committed credit facility in place with a group of banks under which no amounts are outstanding. The $600.0 million facility matures on November 15, 2002 and can be extended 364 days on each maturity date. The $500.0 million facility matures on November 17, 2005, and once a year, it can be extended for one additional year. Based on the Company's current senior unsecured debt ratings, the interest rate charged on any outstanding borrowings on the $600.0 million facility would be the prevailing LIBOR plus 0.24%, and the interest rate charged on any outstanding borrowings on the $500.0 million facility would be the prevailing LIBOR plus 0.22%. The facility fees for the $600.0 million and the $500.0 million facilities are 0.06% and 0.08%, respectively, of the total commitment. Under these agreements, the Company must maintain, among other things, certain minimum specified financial ratios with which the Company was in compliance at May 31, 2002.

Note 5 — Long-Term Debt

Long-term debt includes the following:

	May 31, 2002	May 31, 2001
	(In millions)	
6.69% Medium term note, payable June 17, 2002	$ 50.0	$ 50.0
6.375% Corporate Bond, payable December 1, 2003	199.8	199.8
5.5% Corporate Bond, payable August 15, 2006	248.2	—
4.3% Japanese yen note, payable June 26, 2011	83.4	85.3
2.6% Japanese yen note, maturing August 20, 2001 through November 20, 2020	67.8	73.2
2.0% Japanese yen note, maturing August 20, 2001 through November 20, 2020	30.2	32.5
Other	1.8	.5
Total	681.2	441.3
Less current maturities	55.3	5.4
	$625.9	$435.9

The 6.69% medium term note, due June 17, 2002, was repaid subsequent to May 31, 2002.

In February 1999, the Company filed a shelf registration with the U.S. Securities and Exchange Commission ("SEC") for the sale of up to $500.0 million in debt securities. In August 2001, we issued a $250.0 million corporate bond under this shelf registration, maturing in August 2006, with an interest rate of 5.5%. With the proceeds, we reduced the amount of commercial paper outstanding. In November 2001 the Company entered into interest rate swap agreements totaling $250 million and maturing August 2006, whereby the Company receives fixed interest payments at 5.5% and pays variable interest payments based on the three-month LIBOR plus a spread. At May 31, 2002, the interest rates payable on the swap agreements were approximately 3.3%.

We have an effective shelf registration statement with the Securities and Exchange Commission for $1 billion of debt securities. As of May 31, 2002, we had not issued any debt under the registration statement. Subsequent to May 31, 2002, we issued a total of $90.0 million in notes under the medium term note program of the shelf registration. The notes have coupon rates that range from 4.80% to 5.66%. The maturities range from July 9, 2007 to August 7, 2012. For $75 million of the notes, we simultaneously entered into interest rate swap agreements whereby we receive fixed interest payments at the same rate as the notes and pay variable interest payments based on the six-month LIBOR plus a spread. Each swap has the same notional amount and maturity date as the corresponding note. After issuance of these notes, $910.0 million remains available to be issued under our shelf registration. We may issue further notes under the shelf registration during the year ended May 31, 2003 depending on working capital and general corporate needs.

In June 1996, one of the Company's Japanese subsidiaries borrowed 10,500 million Japanese yen in a private placement with a maturity of June 26, 2011. Interest is paid semi-annually. The agreement provides for early retirement after year ten.

In July 1999, another of the Company's Japanese subsidiaries assumed 13,000 million in Japanese yen loans as part of its agreement to purchase a distribution center in Japan, which serves as collateral for the loans. These loans mature in equal quarterly installments during the period August 20, 2001 through November 20, 2020. Interest is also paid quarterly.

Amounts of long-term debt maturities in each of the years ending May 31, 2003 through 2007 are $55.3 million, $205.3 million, $5.5 million, $5.5 million and $254.7 million, respectively.

Note 6 — Income Taxes

Income before income taxes and cumulative effect of accounting change is as follows:

	Year Ended May 31,		
	2002	2001	2000
	(In millions)		
Income before income taxes and cumulative effect of accounting change:			
United States	$ 511.2	$470.7	$530.4
Foreign	506.1	450.7	388.8
	$1,017.3	$921.4	$919.2

The provision for income taxes is as follows:

	Year Ended May 31,		
	2002	2001	2000
	(In millions)		
Current:			
United States			
Federal	$156.5	$158.5	$205.0
State	32.0	31.6	30.6
Foreign	147.7	76.2	58.8
	336.2	266.3	294.4
Deferred:			
United States			
Federal	(3.3)	64.2	32.7
State	3.3	2.6	1.6
Foreign	12.8	(1.4)	11.4
	12.8	65.4	45.7
	$349.0	$331.7	$340.1

Deferred tax (assets) and liabilities are comprised of the following:

	May 31, 2002	May 31, 2001
	(In millions)	
Deferred tax assets:		
Allowance for doubtful accounts	(14.5)	(16.3)
Inventory reserves	(17.4)	(17.2)
Sales return reserves	(22.1)	(18.4)
Deferred compensation	(49.0)	(40.1)
Reserves and accrued liabilities	(38.5)	(40.1)
Tax basis inventory adjustment	(16.0)	(16.8)
Property, plant, and equipment	(23.4)	(25.7)
Foreign loss carryforwards	(39.9)	(34.6)
Hedges	(26.7)	—
Other	(22.7)	(21.5)
Total deferred tax assets	(270.2)	(230.7)
Deferred tax liabilities:		
Undistributed earnings of foreign subsidiaries	$ 22.0	$ 53.9
Property, plant and equipment	59.6	18.4
Hedges	13.7	—
Other	26.7	20.5
Total deferred tax liabilities	122.0	92.8
Net deferred tax asset before valuation allowance	(148.2)	(137.9)
Valuation allowance	13.2	1.4
Net deferred tax asset	$(135.0)	$(136.5)

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

	Year Ended May 31, 2002	2001	2000
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	2.2	2.4	2.3
Foreign earnings	(3.1)	(1.8)	(1.5)
Other, net	0.2	0.4	1.2
Effective income tax rate	34.3%	36.0%	37.0%

The Company has indefinitely reinvested approximately $361.1 million of the cumulative undistributed earnings of certain foreign subsidiaries, of which $150.0 million was earned during the year ended May 31, 2002. Such earnings would be subject to U.S. taxation if repatriated to the U.S. The amount of unrecognized deferred tax liability associated with the permanently reinvested cumulative undistributed earnings was approximately $91.5 million.

Deferred tax assets at May 31, 2002 and 2001 were reduced by a valuation allowance relating to tax benefits attributable to net operating losses of certain foreign subsidiaries where local tax laws limit the utilization of such net operating losses.

A benefit was recognized for foreign loss carryforwards of $80.1 million at May 31, 2002. Such losses expire as follows (millions):

Year Ended May 31,	2004	2005	2006	2007	2008	Indefinite
Expiration Amount	4.1	4.4	24.8	8.4	9.0	29.4

During the years ended May 31, 2002, 2001, and 2000 income tax benefits attributable to employee stock option transactions of $13.9 million, $32.4 million, and $14.9 million, respectively, were allocated to shareholders' equity.

Note 7 — Redeemable Preferred Stock

NIAC is the sole owner of the Company's authorized Redeemable Preferred Stock, $1 par value, which is redeemable at the option of NIAC or the Company at par value aggregating $0.3 million. A cumulative dividend of $0.10 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, 2002. 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 8 — Common Stock

The authorized number of shares of Class A Common Stock no par value and Class B Common Stock no par value are 110 million and 350 million, 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.

In 1990, the Board of Directors adopted, and the shareholders approved, the NIKE, Inc. 1990 Stock Incentive Plan (the "1990 Plan"). The 1990 Plan provides for the issuance of up to 37.5 million shares of Class B Common Stock in connection with stock options and other awards granted under such plan. The 1990 Plan authorizes the grant of incentive stock options, non-statutory stock options, stock appreciation rights, stock bonuses and the sale of restricted stock. The exercise price for incentive stock options may not be less than the fair market value of the underlying shares on the date of grant. The exercise price for non-statutory stock options, stock appreciation rights and the purchase price of restricted stock may not be less than 75% of the fair market value of the underlying shares on the date of grant. No consideration will be paid for stock bonuses awarded under the 1990 Plan. A committee of the Board of Directors administers the 1990 Plan. The committee has the authority to determine the employees to whom awards will be made, the amount of the awards, and the other terms and conditions of the awards. As of May 31, 2002, the committee has granted substantially all non-statutory stock options at 100% of fair market value on the date of grant under the 1990 Plan.

From time to time, the Company grants restricted stock and unrestricted stock to key employees under the 1990 plan. The number of shares granted to employees during the years ended May 31, 2002 and May 31, 2001 was not material. During the year ended May 31, 2000, the Company granted 427,000 shares of restricted stock at a market value of $27.69 per share. The restrictions lapse and recipients of the restricted shares become vested in the shares over a three-year period from the date of grant. The shares are subject to partial forfeiture if employment terminates within the three-year period. Recipients of restricted shares are entitled to cash dividends and to vote their respective shares. The value of all of the restricted shares was established by the market price on the date of grant. Unearned compensation was charged for the market value of the restricted shares. The unearned compensation is shown as a reduction of shareholders' equity and

is being amortized ratably over the vesting period. During the years ended May 31, 2002, 2001, and 2000, respectively, the Company recognized $4.3 million, $4.3 million and $1.0 million in selling and administrative expense related to the grants, net of forfeitures.

During the years ended May 31, 2002, 2001 and 2000, the Company also granted shares of restricted stock under the Long-Term Incentive Plan ("LTIP"), adopted by the Board of Directors and approved by shareholders in September 1997. Under the LTIP, awards are made to certain executives based on performance targets established over varying time periods. Once performance targets are achieved, the shares of stock are issued and, for certain plan years, remain restricted for an additional three years. In other plan years the shares are immediately vested upon issuance. Unvested shares are subject to forfeiture if the executive's employment terminates within that period. Plan participants are entitled to cash dividends and to vote their respective shares. The value of the restricted shares is established by the market price on the date of issuance. Unearned compensation is charged for the market value of the restricted shares. The unearned compensation is shown as a reduction of shareholders' equity and is being amortized ratably over the service and vesting periods. Under the LTIP a total of 38,000 restricted shares with an average price of $49.50 were issued during the year ended May 31, 2002, 115,000 restricted shares with an average market value of $47.56 were issued during the year ended May 31, 2001, and 33,000 restricted shares with an average market value of $51.06 were issued during the year ended May 31, 2000. Related to the LTIP, the Company recognized $9.0 million, $2.3 million and $2.0 million of selling and administrative expense in the years ending May 31, 2002, 2001 and 2000, respectively, net of forfeitures.

SFAS No. 123, "Accounting for Stock-Based Compensation," (FAS 123) defines a fair value method of accounting for employee stock compensation and encourages, but does not require, all entities to adopt that method of accounting. Entities electing not to adopt the fair value method of accounting must make pro forma disclosures of net income and earnings per share, as if the fair value based method of accounting defined in this statement had been applied.

The Company has elected not to adopt the fair value method; however, as required by FAS 123, the Company has computed for pro forma disclosure purposes, the fair value of options granted during the years ended May 31, 2002, 2001 and 2000 using the Black-Scholes option pricing model. The weighted average assumptions used for stock option grants for each of these years were a dividend yield of 1%, expected volatility of the market price of the Company's common stock of 38%, 39% and 37% for the years ended May 31, 2002, 2001 and 2000, respectively; a weighted-average expected life of the options of approximately five years; and interest rates of 4.8% and 5.4% for the years ended May 31, 2002 and 2001, respectively, and 5.8%, 6.2% and 6.6% for the year ended May 31, 2000. These interest rates are reflective of option grant dates throughout the year.

Options were assumed to be exercised over the 5 year expected life for purposes of this valuation. Adjustments for forfeitures are made as they occur. For the years ended May 31, 2002, 2001 and 2000, the total value of the options granted, for which no previous expense has been recognized, was computed as approximately $73.4 million, $5.0 million and $129.8 million, respectively, which would be amortized on a straight line basis over the vesting period of the options. The weighted average fair value per share of the options granted in the years ended May 31, 2002, 2001 and 2000 are $16.02, $17.27 and $15.81, respectively.

If the Company had accounted for these stock options issued to employees in accordance with FAS 123, the Company's pro forma net income and pro forma earnings per share (EPS) would have been reported as follows:

	Year Ended May 31,								
	2002			2001			2000		
	Net Income	Diluted EPS	Basic EPS	Net Income	Diluted EPS	Basic EPS	Net Income	Diluted EPS	Basic EPS
	(In millions, except per share data)								
As reported	$663.3	$2.44	$2.48	$589.7	$2.16	$2.18	$579.1	$2.07	$2.10
Pro Forma	627.2	2.30	2.34	559.0	2.05	2.07	551.2	1.97	2.00

The pro forma effects of applying FAS 123 may not be representative of the effects on reported net income and earnings per share for future years since options vest over several years and additional awards are made each year.

The following summarizes the stock option transactions under plans discussed above (adjusted for all applicable stock splits):

	Shares (In thousands)	Weighted Average Option Price
Options outstanding May 31, 1999	11,865	$34.97
Exercised	(1,237)	18.23
Surrendered	(852)	52.86
Granted	8,294	40.94
Options outstanding May 31, 2000	18,070	38.02
Exercised	(2,944)	19.24
Surrendered	(1,302)	44.80
Granted	341	40.71
Options outstanding May 31, 2001	14,165	41.28
Exercised	(1,687)	33.62
Surrendered	(724)	44.43
Granted	4,687	42.68
Options outstanding May 31, 2002	16,441	$42.31
Options exercisable at May 31,		
2000	6,655	$28.72
2001	6,626	39.70
2002	7,590	42.30

The following table sets forth the exercise prices, the number of options outstanding and exercisable and the remaining contractual lives of the Company's stock options at May 31, 2002:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Number of Options Exercisable	Weighted Average Exercise Price
	(In thousands)		(Years)	(In thousands)	
$11.25-$27.69	4,253	$25.07	6.33	2,486	$23.21
28.13- 40.63	368	39.65	7.56	186	39.93
40.69- 42.36	4,378	42.34	9.09	31	40.95
42.50- 52.06	3,291	48.00	5.89	2,414	48.01
52.44- 74.88	4,151	55.65	6.66	2,473	56.11

In September 2001, the Company's shareholders approved the establishment of an Employee Stock Purchase Plan (the "ESPP") under which 3,000,000 shares of Class B Stock are reserved for issuance to employees. The plan qualifies as a noncompensatory employee stock purchase plan under Section 423 of the Internal Revenue Code. Employees are eligible to participate through payroll deductions in amounts ranging from 1% to 10% of their compensation. At the end of each six-month offering period, shares are purchased by the participants at 85% of the lower of the fair market value at the beginning or the end of the offering period. Under the ESPP, 78,000 shares were issued during the year ended May 31, 2002.

Note 9 — Earnings Per Share

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase 4.2 million, 8.3 million, and 9.7 million shares of common stock were outstanding at May 31, 2002, 2001, and 2000, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

	Year Ended May 31,		
	2002	2001	2000
	(In millions, except per share data)		
Determination of shares:			
Average common shares outstanding	267.7	270.0	275.7
Assumed conversion of dilutive stock options and awards	4.5	3.3	3.7
Diluted average common shares outstanding	272.2	273.3	279.4
Basic earnings per common share — before cumulative effect of accounting change	$ 2.50	$ 2.18	$ 2.10
Cumulative effect of accounting change	0.02	—	—
	$ 2.48	$ 2.18	$ 2.10
Diluted earnings per common share — before cumulative effect of accounting change	$ 2.46	$ 2.16	$ 2.07
Cumulative effect of accounting change	0.02	—	—
	$ 2.44	$ 2.16	$ 2.07

Note 10 — Benefit Plans

The Company has a profit sharing plan available to substantially all U.S.-based employees. The terms of the plan call for annual contributions by the Company as determined by the Board of Directors. Contributions of $14.4 million, $13.1 million and $15.7 million to the plan are included in other income/expense in the consolidated financial statements for the years ended May 31, 2002, 2001 and 2000, respectively. The Company has a voluntary 401(k) employee savings plan. The Company matches a portion of employee contributions with common stock. Plan changes during the year ended May 31, 2001 included a larger Company match percentage and a change to immediate vesting of the Company match, compared to a previous vesting schedule over 5 years. Company contributions to the savings plan were $13.7 million, $12.7 million and $6.7 million for the years ended May 31, 2002, 2001 and 2000, respectively, and are included in selling and administrative expenses.

Note 11 — Interest Income

Included in other income/expense for the years ended May 31, 2002, 2001, and 2000, was interest income of $13.6 million, $13.9 million and $13.6 million, respectively.

Note 12 — Comprehensive Income

Comprehensive income is as follows:

	Year Ended May 31,		
	2002	2001	2000
		(In millions)	
Net income	$663.3	$589.7	$579.1
Other comprehensive income:			
Change in cumulative translation adjustment and other (net tax expense/(benefit) of $(2.2) in 2002, $(2.4) in 2001, $1.2 in 2000)	(1.5)	(41.0)	(42.2)
Recognition in net income of previously deferred unrealized loss on securities, due to accounting change (net of tax benefit of $2.2)	3.4	—	—
Changes due to cash flow hedging instruments (Note 1):			
Initial recognition of net deferred gain as of June 1, due to accounting change (net of tax expense of $28.7)	53.4	—	—
Loss on hedge derivatives (net of tax benefit of $31.5)	(73.3)	—	—
Reclassification to net income of previously deferred gains related to hedge derivative instruments (net of tax benefit of $10.2)	(22.3)	—	—
Other comprehensive income	(40.3)	(41.0)	(42.2)
Total comprehensive income	$623.0	$548.7	$536.9

The components of accumulated other comprehensive loss are as follows:

	Year Ended May 31,	
	2002	2001
	(In millions)	
Cumulative translation adjustment and other	$(150.2)	$(152.1)
Net deferred loss on hedge derivatives	(42.2)	—
	$(192.4)	$(152.1)

Note 13 — Commitments and Contingencies

The Company leases space for certain of its offices, warehouses and retail stores under leases expiring from one to fifteen years after May 31, 2002. Rent expense was $159.9 million, $152.0 million and $145.5 million for the years ended May 31, 2002, 2001 and 2000, respectively. Amounts of minimum future annual rental commitments under non-cancelable operating leases in each of the five years ending May 31, 2003 through 2007 are $158.2 million, $143.4 million, $119.1 million, $95.3 million, $98.2 million, respectively, and $288.0 million in later years.

As of May 31, 2002 and 2001, the Company had letters of credit outstanding totaling $808.4 million and $851.8 million, respectively. These letters of credit were issued for the purchase of inventory.

In the ordinary course of its business, the Company is involved in legal proceedings involving contractual and employment relationships, product liability claims, trademark rights, and a variety of other matters. The Company does not believe there are any pending legal proceedings that will have a material impact on the Company's financial position or results of operations.

Note 14 — Fair Value of Financial Instruments

The carrying amounts reflected in the consolidated balance sheet for cash and equivalents and notes payable approximate fair value due to the short maturities. The fair value of long-term debt is estimated using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt, including current portion, is approximately $723.9 million, compared to a carrying value of $681.2 million at May 31, 2002 and $437.8 million, compared to a carrying value of $441.3 million at May 31, 2001.

Note 15 — Financial Risk Management and Derivatives

As of May 31, 2002, $50.9 million of deferred net losses (net of tax) on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to earnings during the next twelve months as a result of underlying hedged transactions also being recorded in earnings. Actual amounts ultimately reclassified to earnings are dependent on the exchange rates in effect when derivative contracts that are currently outstanding mature. As of May 31, 2002, the maximum term over which the Company is hedging exposures to the variability of cash flows for all forecasted and recorded transactions is 24 months.

For the year ended May 31, 2002 the Company recorded in other expense an insignificant loss representing the total ineffectiveness of all derivatives. Net income for the year ended May 31, 2002 was not materially affected due to discontinued hedge accounting.

At May 31, 2002, the fair values of derivatives in a gain position and recorded in Prepaid expenses and other current assets and Deferred income taxes and other assets were $60.3 million and $70.0 million, respectively. At this same date, the fair values of derivatives in a loss position and recorded in Accrued liabilities and Deferred income taxes and other liabilities were $123.8 million and $8.1 million, respectively.

Prior to the adoption of FAS 133 carrying values of derivatives recorded on the balance sheet were different from fair values. Accordingly, the aggregate notional principle amounts, carrying values and fair

values of the Company's derivative financial instruments as of May 31, 2001 are provided in the following table:

	May 31, 2001		
	Notional Principal Amounts	Carrying Values	Fair Values
	(In millions)		
Currency Swaps	$ 250.0	$ 77.4	$ 87.0
Forward Contracts	2,428.3	17.8	51.7
Purchased Options	727.5	17.7	20.4
Total	$3,405.8	$112.9	$159.1

Carrying values primarily represent amounts recognized for unrealized gains and losses on contracts which did not meet the criteria for deferral accounting and unamortized premiums paid on option contracts. The net fair value of outstanding forward contracts of $51.7 million as of May 31, 2001 was comprised of unrealized fair value losses of $22.9 million and unrealized fair value gains of $74.6 million.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. The counterparties to all derivative transactions are major financial institutions with investment grade credit ratings. However, this does not eliminate the Company's exposure to credit risk with these institutions. This credit risk is generally limited to the unrealized gains in such contracts should any of these counterparties fail to perform as contracted. To manage this risk, the Company has established strict counterparty credit guidelines which are continually monitored and reported to senior management according to prescribed guidelines. The Company utilizes a portfolio of financial institutions either headquartered or operating in the same countries the Company conducts its business. As a result of the above considerations, the Company considers the risk of counterparty default to be minimal.

In addition to hedging instruments, the Company is subject to concentrations of credit risk associated with cash and equivalents and accounts receivable. The Company places cash and equivalents with financial institutions with investment grade credit ratings and, by policy, limits the amount of credit exposure to any one financial institution. The Company considers its concentration risk related to accounts receivable to be mitigated by the Company's credit policy, the significance of outstanding balances owed by each individual customer at any point in time and the geographic dispersion of these customers.

Note 16 — Operating Segments and Related Information

Operating Segments. The Company's major operating segments are defined by geographic regions for subsidiaries participating in NIKE brand sales activity. "Other" as shown below represents activity for Cole-Haan Holdings, Inc., Bauer NIKE Hockey, Inc., NIKE IHM, Inc., and Hurley International LLC, which are immaterial for individual disclosure. Where applicable, "Corporate" represents items necessary to reconcile to the consolidated financial statements, which generally include corporate activity and corporate eliminations. The segments are evidence of the structure of the Company's internal organization. Each NIKE brand geographic segment operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment.

Net revenues as shown below represent sales to external customers for each segment. Intercompany revenues have been eliminated and are immaterial for separate disclosure. The Company evaluates performance of individual operating segments based on management pre-tax income. On a consolidated basis, this amount represents income before income taxes and cumulative effect of accounting change as shown in the Consolidated Statements of Income. Reconciling items for management pre-tax income represent corporate

costs that are not allocated to the operating segments for management reporting, and intercompany eliminations for specific income statement items.

Additions to long-lived assets as presented following represent capital expenditures and additions to identifiable intangibles and goodwill. Generally, amortization of identifiable intangible assets and goodwill is considered a corporate expense and is not attributable to any specific operating segment. See Note 1 for further discussion on identifiable intangible assets and goodwill. Additions to other long-lived assets are not significant and are comprised of additions to miscellaneous corporate assets not attributable to any specific operating segment.

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

	Year Ended May 31,		
	2002	2001	2000
	(In millions)		
Net Revenue			
United States	$4,916.0	$4,819.0	$4,732.1
Europe, Middle East, and Africa	2,731.5	2,584.8	2,407.0
Asia/Pacific	1,211.7	1,110.0	955.1
Americas	568.1	539.1	494.1
Other	465.7	435.9	406.8
	$9,893.0	$9,488.8	$8,995.1
Management Pre-tax Income			
United States	$ 977.6	$ 919.6	$ 924.3
Europe, Middle East, and Africa	445.4	386.3	376.9
Asia/Pacific	238.7	206.1	146.0
Americas	92.9	81.6	63.7
Other	20.0	41.4	68.9
Corporate	(757.3)	(713.6)	(660.6)
	$1,017.3	$ 921.4	$ 919.2
Additions to Long-lived Assets			
United States	$ 33.4	$ 45.2	$ 29.0
Europe, Middle East, and Africa	27.2	26.2	46.1
Asia/Pacific	22.1	52.9	269.7
Americas	4.8	5.1	4.8
Other	76.3	26.3	32.4
Corporate	115.2	161.9	146.8
	$ 279.0	$ 317.6	$ 528.8
Depreciation			
United States	$ 51.2	$ 51.2	$ 50.8
Europe, Middle East, and Africa	35.2	38.9	39.9
Asia/Pacific	38.4	20.5	19.4
Americas	5.3	6.3	7.1
Other	22.4	23.5	23.7
Corporate	71.0	57.0	47.1
	$ 223.5	$ 197.4	$ 188.0
Accounts Receivable, net			
United States	$ 759.8	$ 622.5	$ 564.7
Europe, Middle East, and Africa	570.8	512.5	529.9
Asia/Pacific	189.6	194.8	200.8
Americas	125.3	144.7	123.0
Other	142.8	118.6	121.0
Corporate	18.8	28.3	30.0
	$1,807.1	$1,621.4	$1,569.4

	Year Ended May 31,		
	2002	2001	2000
		(In millions)	
Inventory, net			
United States	$ 681.5	$ 744.2	$ 736.5
Europe, Middle East, and Africa	339.3	298.3	357.4
Asia/Pacific	159.8	125.8	115.9
Americas	62.9	72.4	65.5
Other	119.9	156.4	141.4
Corporate	10.4	27.0	29.3
	$1,373.8	$1,424.1	$1,446.0
Property, Plant and Equipment, net			
United States	$ 244.4	$ 263.5	$ 271.7
Europe, Middle East, and Africa	212.2	208.2	240.4
Asia/Pacific	378.4	403.5	426.4
Americas	12.4	15.4	18.1
Other	109.7	113.4	114.4
Corporate	657.4	614.8	512.4
	$1,614.5	$1,618.8	$1,583.4

Revenues by Major Product Lines. Revenues to external customers for NIKE brand products are attributable to sales of footwear, apparel, and equipment. Other revenues to external customers primarily include external sales by Cole Haan Holdings, Inc., Bauer NIKE Hockey Inc. and Hurley International LLC.

	Year Ended May 31,		
	2002	2001	2000
		(In millions)	
Footwear	$5,753.7	$5,619.3	$5,561.5
Apparel	2,892.9	2,763.6	2,547.0
Equipment	780.7	670.0	479.8
Other	465.7	435.9	406.8
	$9,893.0	$9,488.8	$8,995.1

Revenues and Long-Lived Assets by Geographic Area. Geographical area information is similar to that shown previously under operating segments with the exception that Other activity is derived predominantly from activity in the U.S. and Americas. Revenues derived in the U.S. were $5,258.8 million $5,144.2 million, $5,017.4 million, during the years ended May 31, 2002, 2001, and 2000, respectively. Our largest concentrations of long-lived assets are in the U.S. and Japan. Long-lived assets attributable to operations in the U.S., which are primarily comprised of net property, plant & equipment and net identifiable intangible assets and goodwill, were $1,217.7 million, $1,165.3 million, and $1,187.0 million at May 31, 2002, 2001, and 2000, respectively. Long-lived assets attributable to operations in Japan were $321.6 million, $339.1 million, and $355.5 million at May 31, 2002, 2001, and 2000, respectively.

Major Customers. During the years ended May 31, 2002, 2001 and 2000, revenues derived from Foot Locker, Inc. represented 10.9%, 11.8% and 12.4%, respectively of the Company's consolidated revenues. Sales to this customer are included in all segments of the Company participating in NIKE brand sales activity.