All per common share data has been adjusted to reflect the 2-for-1 stock splits paid October 23, 1996 and October 30, 1995. The Company's Class B Common Stock is listed on the New York and Pacific Exchanges and trades under the symbol NKE. At May 31, 2002, there were approximately 126,000 shareholders of Class A and Class B common stock.

Financial Highlights

	Year Ended May 31,		
	2002	2001	% CHG
	(In millions, except per share data and financial ratios)		
Revenues	$9,893.0	$9,488.8	4.3%
Gross margin	3,888.3	3,703.9	5.0%
Gross margin %	39.3%	39.0%	
Income before accounting change	668.3	589.7	13.3%
Basic earnings per common share before accounting change	2.50	2.18	14.7%
Diluted earnings per common share before accounting change	2.46	2.16	13.9%
Return on equity	18.2%	17.8%	
Stock price at May 31	53.75	41.10	30.8%

Selected Quarterly Financial Data

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2002	2001	2002	2001	2002	2001	2002	2001
	(Unaudited) (In millions, except per share data and financial ratios)							
Revenues	$2,613.7	$2,636.7	$2,336.8	$2,198.7	$2,260.3	$2,170.1	$2,682.2	$2,483.3
Gross margin	1,028.9	1,067.5	895.4	871.4	883.5	828.6	1,080.5	936.4
Gross margin %	39.4%	40.5%	38.3%	39.6%	39.1%	38.2%	40.3%	37.7%
Income before accounting change	204.2	210.2	129.3	119.4	126.3	97.4	208.5	162.7
Basic earnings per common share before accounting change	0.74	0.78	0.48	0.44	0.47	0.36	0.78	0.60
Diluted earnings per common share before accounting change	0.73	0.77	0.48	0.44	0.46	0.35	0.77	0.60
Net income	199.2	210.2	129.3	119.4	126.3	97.4	208.5	162.7
Average common shares outstanding	268.6	269.9	268.1	269.8	268.4	270.9	266.9	269.3
Diluted average common shares outstanding	271.6	273.8	271.6	273.2	273.4	274.6	272.0	271.5
Cash dividends declared per common share	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
Price range of common stock								
High	51.28	48.00	53.55	44.50	61.00	59.44	63.99	45.09
Low	40.81	35.19	42.26	36.38	52.31	39.05	52.75	36.30

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations following are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles

generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. Certain of these critical accounting policies affect working capital account balances, including the policies for revenue recognition, the reserve for uncollectible accounts receivable, inventory reserves, and contingent payments under endorsement contracts. These policies require that we make estimates in the preparation of our financial statements as of a given date. However, since our business cycle is relatively short, actual results related to these estimates are generally known within the six-month period following the financial statement date. Thus, these policies generally affect only the timing of reported amounts across two to three quarters.

Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances which would result in materially different amounts being reported.

Revenue Recognition

We record wholesale revenues 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.

In some instances, we ship product directly from our supplier to the customer. In these cases, we recognize revenue when the product is delivered to the customer. Our revenues may fluctuate in cases when our customers delay accepting shipment of product for periods up to several weeks.

In certain countries outside of the U.S., precise information regarding the date of receipt by the customer is not readily available. In these cases, we estimate the date of receipt by the customer based upon historical delivery times by geographic location. On the basis of our tests of actual transactions, we have no indication that these estimates have been materially inaccurate historically.

As part of our revenue recognition policy, we record estimated sales returns and miscellaneous claims from customers as reductions to revenues at the time revenues are recorded. We base our estimates on historical rates of product returns and claims, and specific identification of outstanding claims and outstanding returns not yet received from customers. In the past, actual returns and claims have not exceeded our reserves. However, actual returns and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and claims were significantly greater or lower than the reserves we had established, we would record a reduction or increase to net revenues in the period in which we made such determination.

Reserve for Uncollectible Accounts Receivable

We make ongoing estimates relating to the collectibility of our accounts receivable and maintain a reserve for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the reserve, we consider our historical level of credit losses and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Historically, losses from uncollectible accounts have not exceeded our reserves. Since we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event we determined that a smaller or larger reserve was appropriate, we would record a credit or a charge to selling and administrative expense in the period in which we made such a determination.

Inventory Reserves

We also make ongoing estimates relating to the market value of inventories, based upon our assumptions about future demand and market conditions. If we estimate that the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated market value. This reserve is recorded as a charge to cost of sales. If changes in market conditions result in reductions in the estimated market value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination and record a charge to cost of sales.

Contingent Payments under Endorsement Contracts

A significant portion of our demand creation (advertising and promotion) expense relates to payments under endorsement contracts. In general, endorsement payments are expensed uniformly over the term of the contract. However, certain contract elements may be accounted for differently, based upon the facts and circumstances of each individual contract.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g. winning a championship). We record selling and administrative expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g. maintaining a top ranking in a sport for a year). These amounts are reported in selling and administrative expense when we determine that it is probable that the specified level of performance will be maintained throughout the period. In these instances, to the extent that actual payments to the endorser differ from our estimate due to changes in the endorser's athletic performance, increased or decreased selling and administrative expense may be reported in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percentage of sales of particular products. We expense these payments in cost of sales as the related sales are made. In certain contracts, we offer minimum guaranteed royalty payments. For contractual obligations for which we estimate that we will not meet the minimum guaranteed amount of royalty fees through sales of product, we record in selling and administrative expense the minimum guaranteed payment amount uniformly over the remaining royalty term.

Property, Plant and Equipment and Other Long-lived Assets

Property, plant and equipment, including buildings, equipment, and computer hardware and software is recorded at cost (including, in some cases, the cost of internal labor) and is depreciated over its estimated useful life. Changes in circumstances (such as technological advances or changes to our business operations) can result in differences between the actual and estimated useful lives. In those cases where we determine that the useful life of a long-lived asset should be shortened, we increase depreciation expense over the remaining useful life to depreciate the asset's net book value to its salvage value.

Under current accounting standards, when events or circumstances indicate that the carrying value of a long-lived asset may be impaired, we estimate the future undiscounted cash flows to be derived from the asset to determine 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. Any impairment charges are recorded as other expense. We estimate future undiscounted cash flows using assumptions about our expected future operating performance. Our estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, or changes to our business operations. For fiscal 2002, no significant impairment related to the carrying value of our long-lived assets (including property, plant, and equipment, goodwill, and other intangible assets) has been recorded under current accounting standards. However, as of June 1, 2002, we will adopt Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." We expect to record an impairment charge related to the goodwill

and other intangible assets of our subsidiaries Bauer NIKE Hockey, Inc. and Cole-Haan Holdings, Inc. in the first quarter of fiscal 2003. See "Recently Issued Accounting Standards" below.

Hedge Accounting for Derivatives

We use forward exchange contracts and option contracts to hedge certain anticipated foreign currency exchange transactions, as well as any resulting receivable or payable balance. When specific criteria required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," have been met, changes in fair values of hedge contracts relating to anticipated transactions are recorded in other comprehensive income rather than current earnings until the underlying hedged transaction affects current earnings. In most cases, this results in gains and losses on hedge derivatives being released from other comprehensive income into current earnings some time after the maturity of the derivative. One of the criteria for this accounting treatment is that the forward exchange contract amount should not be in excess of specifically identified anticipated transactions. By their very nature, our estimates of anticipated transactions may fluctuate over time and may ultimately vary from actual transactions. When anticipated transaction estimates or actual transaction amounts decrease below hedged levels, or when the timing of transactions changes significantly, we are required to reclassify at least a portion of the cumulative changes in fair values of the related hedge contracts from other comprehensive income to other income/expense during the quarter in which such changes occur. Once an anticipated transaction estimate or actual transaction amount decreases below hedged levels, we make adjustments to the related hedge contract in order to reduce the amount of the hedge contract to that of the revised anticipated transaction.

Taxes

We record valuation allowances against our deferred tax assets, when necessary, in accordance with SFAS No. 109, "Accounting for Income Taxes." Realization of deferred tax assets (such as net operating loss carryforwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our deferred tax asset, increasing our income tax expense in the period such determination is made.

In addition, we have not recorded U.S. income tax expense for foreign earnings that we have declared as indefinitely reinvested offshore, thus reducing our overall income tax expense. The amount of earnings designated as indefinitely reinvested offshore is based upon the actual deployment of such earnings in our offshore assets and our expectations of the future cash needs of our U.S. and foreign entities. Income tax considerations are also a factor in determining the amount of foreign earnings to be repatriated.

In the event actual cash needs of our U.S. entities exceed our current expectations or the actual cash needs of our foreign entities are less than expected, we may need to repatriate foreign earnings which have been designated as indefinitely reinvested offshore. This would result in additional income tax expense being recorded.

We take a conservative approach in determining the amount of foreign earnings to declare as reinvested offshore. As required by U.S. generally accepted accounting principles, the presumption is that such earnings will be repatriated in the future. In order to overcome this presumption, we carefully review all factors which drive the ultimate disposition of such foreign earnings, and apply stringent standards to overcoming the presumption of repatriation. Despite this conservative approach, because the determination involves our future plans and expectations of future events, there is a possibility that amounts declared as indefinitely reinvested offshore may ultimately be repatriated. Conversely, this conservative approach may result in accumulated foreign earnings (for which U.S. income taxes have been provided) being determined in the future to be indefinitely reinvested offshore. In this latter case, our income tax expense would be reduced in the year of such determination.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision in accordance with the anticipated annual rate. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This

continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate.

Other Contingencies

In the ordinary course of business, we are involved in legal proceedings involving contractual and employment relationships, product liability claims, trademark rights, and a variety of other matters. We record contingent liabilities resulting from claims against us when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. We disclose contingent liabilities when there is a reasonable possibility that the ultimate loss will exceed the recorded liability. Estimating probable losses requires analysis of multiple factors, in some cases including judgments about the potential actions of third party claimants and courts. Therefore, actual losses in any future period are inherently uncertain. Currently, we do not believe that any of our pending legal proceedings or claims will have a material impact on our financial position or results of operations. However, if actual or estimated probable future losses exceed our recorded liability for such claims, we would record additional charges as other expense during the period in which the actual loss or change in estimate occurred.

Results of Operations

Fiscal 2002 Highlights

- Revenues increased 4.3% to $9.9 billion, compared to $9.5 billion in fiscal 2001.
- Income before the cumulative effect of an accounting change increased to $668.3 million from $589.7 million in the prior year, an increase of 13.3%. After the effect of the accounting change, net income rose 12.5%.
- Diluted earnings per share before the effect of the accounting change increased by 13.9%, from $2.16 to $2.46. After the effect of the accounting change, diluted earnings per share rose 13.0%.
- Gross margins increased as a percentage of revenues to 39.3% from 39.0% in fiscal 2001.
- Selling and administrative expenses increased as a percentage of revenues to 28.5% from 28.3% in fiscal 2001.

Fiscal 2002 Compared to Fiscal 2001

Net income increased 13.3% over fiscal 2001, from $589.7 million to $668.3 million (excluding an after-tax loss of $5.0 million related to the cumulative effect of the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"). Diluted earnings per share before the effect of the accounting change improved 13.9%, from $2.16 to $2.46. These increases reflected a 10.4% increase in income before income taxes and a 1.7 point decrease in our effective income tax rate. The increase in income before income taxes was due to increased revenues, improved gross margins and lower interest and other expenses, partially offset by a slight increase in selling and administrative expenses as a percentage of revenues.

Fiscal 2002 revenues were the highest in our history, reflecting increased NIKE brand sales in all of our geographic regions. In the U.S., NIKE brand revenues increased 2.0% for the fiscal year, driven by increased sales of apparel and equipment. The increased sales in apparel reflected higher demand for in-line products, particularly for NIKE brand and Brand Jordan basketball apparel, more than offsetting the effect of the expiration of our apparel license agreement with the National Football League last year. In equipment, our rapidly growing golf business drove a 21.7% increase for the year.

U.S. footwear revenues declined 0.7% versus fiscal 2001. While in-line sales of footwear increased compared to last year, particularly in the mid-range price segment, close-out sales decreased significantly. The reduction in close-out sales reflected both our efforts to limit the availability of close-out products in the marketplace (in order to build overall profitability) and relatively high levels of close-out sales in the last half of fiscal 2001 due to supply chain system disruptions discussed further below in the *Fiscal 2001 Compared to*

Fiscal 2000 section. As in the apparel business, sales of NIKE brand and Brand Jordan basketball footwear products were the primary drivers of increased wholesale sales of in-line footwear during the year.

In fiscal 2002, NIKE brand revenues from our international regions continued to grow versus the prior year, both as a percentage of total company revenues and in total dollars. These revenues represented 45.6% of total company revenues as compared to 44.6% in fiscal 2001. Revenues from our international regions were $4.5 billion as compared to $4.2 billion in fiscal 2001, a 6.6% increase. Had the U.S. dollar remained constant with the prior year, these international revenues would have increased 12.4%, and consolidated revenues would have increased 6.9% (compared to 4.3% growth as reported).

Increased revenues in each of our international regions resulted from higher demand for products in all NIKE brand businesses: footwear, apparel, and equipment. Revenues in our Europe, Middle East, and Africa (EMEA) region increased for the eighth consecutive year. Fiscal 2002 reported revenues in EMEA increased by 5.7% over fiscal 2001, a 9.6% increase in constant dollars. In our Asia Pacific region, reported revenues grew 9.2%, a 19.3% increase in constant dollars. The Americas region grew reported revenues 5.4%, an 11.9% increase in constant dollars, despite a drop-off in sales in Argentina during the second half of the year due to that country's economic crisis.

In fiscal 2002, other revenue, which primarily includes revenues from Bauer NIKE Hockey, Cole Haan, and Hurley, increased 6.8% to $465.7 million.

Foot Locker, Inc. is our largest single customer and represented 10.9% of our worldwide revenues in fiscal 2002. Foot Locker has expressed its intention to reduce the emphasis of its U.S. business on higher-priced, premium footwear and place more focus on moderately-priced offerings. Due to this change in strategy, Foot Locker's futures orders in the U.S. for the holiday season (scheduled for delivery from September through November 2002) decreased significantly versus the same period in the previous year. In spite of the reduction in orders from Foot Locker, total U.S. futures orders for the September to November period are down only 2.3% versus the prior year and worldwide futures orders for the same period increased 3.0% versus fiscal 2002.

The impact of lower orders from Foot Locker for the September to November period was largely included in the June to November futures orders reported in our June 27, 2002 press release. However, additional changes in November orders from Foot Locker reduced the overall growth of worldwide futures for the six-month period by approximately 30 basis points to 6.3%.

Although we expect Foot Locker to continue to be an important retail partner for NIKE, second half U.S. footwear orders from this customer will likely be significantly below the prior year. We are aggressively pursuing incremental sales across our business as we work to offset these declines and achieve our worldwide revenue growth goals for the year. We believe there continues to be strong consumer demand for high-end, performance footwear; this segment has always been central to the success of the NIKE brand. Therefore, we will continue to work aggressively with those retailers who are focused on serving this market. While the success of these efforts over the next few quarters is uncertain, we remain confident in the long-term strength of our brand and our business.

Worldwide futures (advance) orders for NIKE brand athletic footwear and apparel scheduled for delivery from June through November 2002 were 6.3% higher than such orders booked in the comparable period of fiscal 2002. The percentage growth in futures 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. Finally, a significant portion of our revenues are not derived from futures orders, including wholesale sales of equipment, U.S. licensed team apparel, Bauer NIKE Hockey, Cole Haan, Hurley, and retail sales across all brands. In the first quarter of fiscal 2003, we expect that revenue growth will lag futures order growth, reflecting lower close-out sales versus the first quarter of fiscal 2002 and lower retail sales versus the same period last year as U.S. retail sales have remained at relatively low levels since the terrorist attacks of September 11, 2001.

The breakdown of revenues follows:

May 31,	Fiscal 2002	Fiscal 2001	FY02 vs. FY01 % CHG	Fiscal 2000	FY01 vs. FY00 % CHG
			(In millions)		
USA Region					
Footwear	$3,185.0	$3,208.9	(0.7)%	$3,351.2	(4.2)%
Apparel	1,305.3	1,260.3	3.6%	1,154.4	9.2%
Equipment and other	425.7	349.8	21.7%	226.5	54.4%
Total USA	4,916.0	4,819.0	2.0%	4,732.1	1.8%
EMEA Region					
Footwear	1,551.8	1,422.8	9.1%	1,309.4	8.7%
Apparel	989.5	976.3	1.4%	933.9	4.5%
Equipment and other	190.2	185.7	2.4%	163.7	13.4%
Total EMEA	2,731.5	2,584.8	5.7%	2,407.0	7.4%
Asia Pacific Region					
Footwear	657.7	632.4	4.0%	557.0	13.5%
Apparel	431.0	374.8	15.0%	321.0	16.8%
Equipment and other	123.0	102.8	19.6%	77.1	33.3%
Total Asia Pacific	1,211.7	1,110.0	9.2%	955.1	16.2%
Americas Region					
Footwear	359.2	355.2	1.1%	343.9	3.3%
Apparel	167.1	152.2	9.8%	137.7	10.5%
Equipment and other	41.8	31.7	31.9%	12.5	153.6%
Total Americas	568.1	539.1	5.4%	494.1	9.1%
Total NIKE brand	9,427.3	9,052.9	4.1%	8,588.3	5.4%
Other	465.7	435.9	6.8%	406.8	7.2%
Total Revenues	$9,893.0	$9,488.8	4.3%	$8,995.1	5.5%

Our gross margin percentage improved 30 basis points, from 39.0% in fiscal 2001 to 39.3% in fiscal 2002. Factors contributing to the improved gross margin percentage versus the prior year were as follows:

(1) Higher in-line pricing margins in EMEA, due to the effect of higher prices effective at the beginning of the fiscal year and sourcing and warehousing efficiencies, partially offset by the effect of weaker euro/U.S. dollar currency hedge rates relative to fiscal 2001.

(2) Higher footwear margins in the U.S. due in part to lower product costs and lower transportation costs, as a result of both effective negotiations with shippers and lower air freight costs incurred. Relatively higher air freight costs were incurred in fiscal 2001 due to supply chain problems discussed following.

(3) A higher mix of in-line sales versus close-out sales of U.S. footwear, reflecting increased demand for in-line footwear and lower close-out sales as compared to fiscal 2001 as discussed above.

Selling and administrative expenses increased as a percentage of revenues from 28.3% in fiscal 2001 to 28.5% in fiscal 2002. Operating overhead increased 6.0% during fiscal 2002 largely as a result of our continued investment in initiatives intended to generate future revenues and profits. Significant drivers of the increased operating overhead included increased investment in our supply chain initiative, additional headcount to support our growing golf and European businesses, additional expense for compensation programs tied to our

profitability and stock performance, and costs for additional retail stores primarily in our EMEA and Asia Pacific regions.

The supply chain initiative refers to our on-going development of systems and processes supporting our worldwide supply chain. This initiative is intended to improve revenue (by increasing our ability to respond to market conditions), margins (by lowering close-outs and distribution costs) and cash flow (by reducing inventories). The ultimate level of benefit to revenues, margins, and cash flows, if any, will not be known until the new systems and processes have been implemented worldwide over the next few years. During fiscal 2002, we implemented new systems and processes for certain global functions and for our U.S. business, and we plan on implementing new systems and processes in EMEA during fiscal 2003. In fiscal 2003, we will continue to invest in the implementation of the new systems worldwide and support our existing system infrastructure for those businesses where we have not yet implemented the new systems.

Demand creation expense was $1,027.9 million in fiscal 2002 versus $998.2 million in fiscal 2001, which was consistent between years as a percentage of revenues. Our fiscal 2002 demand creation expense reflected incremental spending for our World Cup 2002 marketing campaign, which occurred primarily in our international regions. In fiscal 2003, we expect demand creation expense to grow slightly faster than revenues, reflecting the continuation of the World Cup 2002 campaign into the first quarter of fiscal 2003. In addition, we have entered into a long-term license and endorsement agreement with Manchester United, one of the premier soccer clubs in the world, which begins in August 2002. Payments under this contract will result in additional demand creation expense.

Interest expense decreased 18.9%, from $58.7 million to $47.6 million in fiscal 2002, due to lower interest rates in the current year and lower average debt levels, as we used operating free cash flow to reduce debt.

Other income/expense was a net expense of $3.0 million versus a net expense of $34.1 million in fiscal 2001. Consistent with previous years, other income/expense included interest income, profit sharing expense, goodwill amortization, certain foreign currency conversion gains and losses, and asset disposal gains/losses. Net other expense decreased between years as the fiscal 2001 amount included charges for contractual settlements that did not recur in fiscal 2002. In addition, fiscal 2002 other income/expense included credits related to the favorable resolution of some outstanding claims.

Our fiscal 2002 effective tax rate was 34.3% as compared to 36.0% in fiscal 2001. As required by U.S. generally accepted accounting principles, we do not accrue for U.S. tax liability on foreign earnings permanently invested offshore. The lower effective tax rate in fiscal 2002 is primarily the result of a larger amount of foreign earnings permanently invested offshore in fiscal 2002 than in fiscal 2001.

Fiscal 2001 Compared to Fiscal 2000

Net income increased 1.8% over fiscal 2000, from $579.1 million to $589.7 million. Although consolidated revenues increased 5.5% over fiscal 2000, income before income taxes was essentially flat as pretax profit margins decreased due to a lower gross margin percentage, higher interest expense, and increased other expenses, partially offset by lower selling and administrative expenses as a percentage of revenues. Despite flat income before income taxes, net income increased due to a lower effective tax rate. Diluted earnings per share increased 4.3%, from $2.07 to $2.16. The percentage increase in earnings per share was higher than that of net income primarily due to share repurchases in fiscal years 2000 and 2001.

NIKE brand revenues in the U.S. region increased 1.8% as compared to fiscal 2000, while NIKE brand revenues in our international regions increased 9.8%. Had the U.S. dollar remained constant with the prior year, these international revenues would have increased 18.6%, and consolidated revenues would have advanced 9.3%. In the U.S. region, our largest market segment, the 1.8% increase in revenues reflected a 9.2% increase in apparel sales and a 54.4% increase in equipment sales, offset by a 4.2% decrease in footwear sales. The increases in apparel and equipment reflected stronger demand for in-line products. The increase in the equipment product line reflected increases in a variety of sports equipment categories, including golf, football, and baseball products as well as socks, bags and eyewear. The decrease in footwear reflected lower demand, particularly in the mid-range price segment, and supply chain disruptions resulting from the implementation of

a new global demand and supply planning system. The supply chain disruptions resulted in product excesses as well as product shortages and late deliveries in the second half of the fiscal 2001.

Revenues from our international regions were $4.2 billion as compared to $3.9 billion in fiscal 2000. Fiscal 2001 revenues in EMEA increased over fiscal 2000 by 7.4% to $2,584.8 million, a 19.3% increase in constant dollars. In our Asia Pacific region, revenues grew 16.2%, a 20.8% increase in constant dollars. The Americas region grew revenues 9.1%, an 11.4% increase in constant dollars.

In fiscal 2001, other revenue increased 7.2% to $435.9 million.

Our gross margin percentage declined 90 basis points, from 39.9% in fiscal 2000 to 39.0% in fiscal 2001. Factors contributing to the lower gross margin percentage were as follows:

(1) The effect of the change in foreign exchange rates, most notably the weakening of the euro against the U.S. dollar relative to fiscal 2000.

(2) A higher mix of close-out sales as well as lower margins achieved on close-outs, primarily in footwear and licensed team apparel in the U.S. In footwear, the higher mix of close-outs and lower close-out margins were due in part to the supply chain disruptions discussed above. Higher close-outs and lower margins in U.S. licensed team apparel resulted primarily from the liquidation of National Football League (''NFL'') team apparel, due to the termination of our NFL license agreement.

(3) Product recalls of certain footwear models in the United States, which resulted in product returns and write-offs.

Selling and administrative expenses decreased as a percentage of revenues from 29.0% to 28.3%. Demand creation expense decreased as a percentage of revenues from 10.8% to 10.5%. Fiscal 2001 demand creation expense was $998.2 million versus $974.1 million in fiscal 2000. The overall decrease in selling and administrative expenses as a percentage of revenues reflected cost containment measures, both in marketing and operational areas. While implementing these measures to control selling and administrative expense growth, we also continued to invest in operational initiatives designed to create future revenues and profits. These initiatives included the expansion of NIKE-owned retail outlets, the development of e-commerce applications, and systems and processes supporting our worldwide supply chain. Our level of investment in these areas in fiscal 2001 was comparable to our level of investment in fiscal 2000.

Interest expense increased 30.4%, from $45.0 million to $58.7 million, due to higher average debt levels in fiscal 2001 versus fiscal 2000. During fiscal 2000, we increased debt to fund capital expenditures and higher working capital requirements, and to repurchase common stock. Although our debt balance decreased during fiscal 2001, the average debt balance for fiscal 2001 remained above the prior year.

Other income/expense was a net expense of $34.1 million versus a net expense of $20.7 million in fiscal 2000. Significant amounts included in other income/expense were interest income, profit sharing expense, goodwill amortization, certain foreign currency conversion gains and losses, asset disposal gains and losses, and charges for contractual settlements.

Our fiscal 2001 effective tax rate was 36.0% as compared to 37.0% in fiscal 2000. As discussed above, we do not accrue for U.S. tax liability on foreign earnings permanently invested offshore. The lower effective tax rate in fiscal 2001 was primarily the result of lower taxes on a larger amount of foreign earnings that were permanently invested offshore in fiscal 2001 than in fiscal 2000 as well as additional research tax credits.

Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, ''Business Combinations'' (FAS 141) and SFAS No. 142, ''Goodwill and Other Intangible Assets'' (FAS 142). FAS 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. FAS 141 also requires a more rigorous identification of intangible assets which must be

recognized and reported separately from goodwill. The adoption of FAS 141 will not have a material effect on our results of operations or financial position.

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. Our adoption date is June 1, 2002. As of that 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 fiscal 2003.

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. The test will consist of a comparison of the estimated fair values of indefinite-lived assets with the carrying amounts. If the carrying amount of an intangible asset exceeds our estimate of its fair value, we will recognize an impairment loss in an amount equal to that excess.

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. To accomplish this, we will identify our reporting units and determine the carrying value of each reporting unit by assigning our assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the adoption date. We will then estimate the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds our estimate of the fair value of the reporting unit, we then will perform the second step of the transitional impairment test.

Where necessary, in the second step, we will compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which will be measured as of the adoption date. The implied fair value of goodwill will be determined by allocating the estimated fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with FAS 141. The residual fair value after this allocation will be the implied fair value of the reporting unit goodwill. We will record a transitional impairment loss for any excess of the carrying value of goodwill allocated to the reporting unit over the implied fair value.

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 the cumulative effect of a change in accounting principle in our consolidated statement of income during the first quarter of fiscal 2003.

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 us on June 1, 2003. We do not expect that the adoption of FAS 144 will have any impact on our consolidated financial position or results of operations.

Liquidity and Capital Resources

Fiscal 2002 Cash Flow Activity

Cash provided by operations was $1,081.5 million in fiscal 2002, compared to $656.5 million in fiscal 2001. Our primary source of operating cash flow was net income earned during the year of $663.3 million. Operating cash flow increased significantly over the prior year due to reduced investment in certain working capital components during fiscal 2002, which generated positive operating cash flow.

Cash used by investing activities during fiscal 2002 was $302.8 million, compared to $342.3 million invested during fiscal 2001. The total for fiscal 2002 related primarily to capital expenditures for computer equipment and software, driven by our supply chain initiative, and investments in new retail outlets. In addition, we acquired all of the assets and substantially all of the liabilities of Hurley International LLC, a teen lifestyle brand company. During fiscal 2003, we will continue to incur expenditures related to systems improvements (most notably the supply chain initiative), retail expansion, and investments in our worldwide warehouse facilities.

Cash used by financing activities in fiscal 2002 was $478.2 million, up from $349.9 million in the prior year. This amount included uses of cash for dividends to shareholders, a net reduction in debt, and share repurchases. These uses of cash were partially offset by proceeds from the exercise of employee stock options.

The share repurchases were part of a $1.0 billion share repurchase program that began in fiscal 2001, after completion of a four-year, $1.0 billion program in fiscal 2000. In fiscal 2002, we repurchased 4.3 million shares of NIKE's Class B common stock for $237.7 million. To date, under the current program, we have purchased a total of 8.3 million shares of NIKE's Class B common stock for $394.7 million. We expect to fund the current program 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 Financial Obligations and Other Commercial Commitments

Our significant long-term contractual obligations as of May 31, 2002 are as follows:

	Cash Payments Due During the Year Ended May 31,						
Description of Commitment	**2003**	**2004**	**2005**	**2006**	**2007**	**Thereafter**	**Total**
				(In millions)			
Operating Leases	$158.2	143.4	119.1	95.3	98.2	288.0	$ 902.2
Long-term Debt	55.3	205.3	5.5	5.5	254.7	154.9	681.2
Endorsement Contracts	274.2	220.3	166.1	133.5	92.7	208.1	1,094.9

The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete and sport team endorsers of our products. Actual payments under some contracts are likely be higher than the amounts listed as these contracts provide for bonuses to be paid to the endorsers based upon athletic achievements in future periods. Actual payments under some contracts may also be lower as a limited number of contracts include provisions for reduced payments if athlete performance declines in future periods.

In addition to the cash payments disclosed above, we are obligated to furnish the endorsers with NIKE products for their use. It is not possible to determine how much we will spend on this product on an annual basis as the contracts do not stipulate a specific amount of cash to be spent on the product. The amount of product provided to the endorsers will depend on many factors including general playing conditions, the number of sporting events in which they participate, and our own decisions regarding product and marketing initiatives. In addition, the costs to design, develop, source, and purchase the products furnished to the endorsers are incurred over a period of time and are not necessarily tracked separately from similar costs incurred for products sold to customers.

An outsourcing contractor provides us with information technology operations management services through 2006. The amount of the payments in future years depends on our level of monthly use of the different elements of the contractor's services. If we were to terminate the entire contract as of May 31, 2002, we would

be required to provide the contractor with four months notice and pay a termination liability of $22.6 million. Our monthly payments to the contractor currently are approximately $6 million.

We also have the following outstanding short-term debt obligations as of May 31, 2002. Please refer to the accompanying *Notes to Consolidated Financial Statements (Note 4 — Short-term Borrowings and Credit Lines)* for further description and interest rates related to the below short-term debt obligations.

	Outstanding as of May 31, 2002
	(In millions)
Commercial paper outstanding and other notes payable for U.S. operations, all original maturities ninety-five days or less	$339.2
Notes payable for non-U.S. operations, due at a mutually agreed-upon dates, generally ninety days from issuance or on demand	86.0
Payable to Nissho Iwai American Company (NIAC) for the purchase of inventories, generally due sixty days after shipment of goods from a foreign port	36.3

As of May 31, 2002, letters of credit of $808.4 million were outstanding for the purchase of inventories. All letters of credit generally expire within one year.

Capital Resources

We have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) under which $1.0 billion in debt securities are available to be issued. On May 29, 2002, we commenced a medium-term note program under the shelf registration that allows us to issue up to $500.0 million in medium-term notes, as our capital needs dictate. We entered into this program to provide additional liquidity to meet our working capital and general corporate cash requirements. As of May 31, 2002, we had not issued any debt securities under the shelf registration.

Subsequent to May 31, 2002, we issued a total of $90 million in notes under the medium-term note program. 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 London Inter Bank Offering Rate (LIBOR) plus a spread. Each swap has the same notional amount and maturity date as its respective note. After issuance of these notes, $910.0 million remains available to be issued under our shelf registration. We may issue additional notes under the shelf registration in fiscal 2003 depending on working capital and general corporate needs.

As of May 31, 2001, we had a $750.0 million, 364-day committed credit facility and a $500.0 million, multi-year committed credit facility in place with a group of banks. In November 2001, we renewed the 364-day facility in the amount of $600.0 million. Thus, our current total availability under these two bank facilities is $1.1 billion. We currently have no amounts outstanding under these facilities. 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 our current long-term senior unsecured debt ratings of A and A2 from Standard and Poor's Corporation and Moody's Investor Services, respectively, 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.

If our long-term debt rating were to decline, the facility fees and interest rates under our committed credit facilities would increase. Conversely, if our long-term debt rating improves, the facility fees and interest rates would decrease. Changes in our long-term debt rating would not trigger acceleration of maturity of any then outstanding borrowings or any future borrowings under the committed credit facilities. However, under

these committed credit facilities, we have agreed to various covenants. These covenants include limits on our disposal of fixed assets and the amount of debt secured by liens we may incur, and set a minimum ratio of net worth to indebtedness. In the event we were to have any borrowings outstanding under these facilities, failed to meet any covenant, and were unable to obtain a waiver from a majority of the banks, any borrowings would become immediately due and payable. As of May 31, 2002, we were in full compliance with each of these covenants and believe it is unlikely we will fail to meet any of these covenants in the future.

Liquidity is also provided by our commercial paper program, under which there was $338.3 million and $710.0 million outstanding at May 31, 2002 and May 31, 2001, respectively. We currently have short-term debt ratings of A1 and P1 from Standard and Poor's Corporation and Moody's Investor Services, respectively.

We currently believe that cash generated by operations, together with access to external sources of funds as described above, will be sufficient to meet our operating and capital needs.

Dividends per share of common stock for fiscal 2002 were $0.48, the same as in fiscal 2001. We have paid a dividend every quarter since February 1984. We review our dividend policy from time to time; however, based upon current projected earnings and cash flow requirements, we anticipate continuing to pay a quarterly dividend.

Item 7A. *Quantitative and Qualitative Disclosures about 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 reduce the variability of local entity cash flows as a result of exchange rate movements. We use forward exchange contracts and options to hedge certain anticipated but not yet firmly committed transactions as well as certain firm commitments and the related receivables and payables, including third party or intercompany transactions.

When we begin hedging exposures depends on the nature of the exposure and market conditions. Generally, all anticipated and firmly committed transactions that are hedged are to be recognized within twelve months, although at May 31, 2002 we had forward contracts hedging anticipated transactions that will be recognized in as many as 24 months. The majority of the contracts expiring in more than twelve months relate to the anticipated purchase of inventory by our Japanese subsidiary. We use forward contracts and cross-currency swaps to hedge foreign currency denominated payments under intercompany loan agreements. When intercompany loans are hedged, it is typically for their expected duration, which in some circumstances may be in excess of five years. Hedged transactions are principally denominated in European currencies, Japanese yen, Canadian dollars, Korean won, Mexican pesos, Australian dollars and new Taiwan dollars.

Our earnings are 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, and bank loans and have entered into interest rate swaps under which we receive fixed interest and pay variable interest.

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, interest rate swaps, intercompany loans denominated in foreign currencies, fixed interest rate U.S. dollar denominated debt, and fixed interest rate Japanese yen denominated debt.