NIKE INC
Form 10-Q
January 12, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q

FOR QUARTERLY REPORTS UNDER SECTION 13 OR 15(d) OF
THE SECURITIES AND EXCHANGE ACT OF 1934

For the Quarter Ended November 30, 2003
Commission file number - 1-10635

NIKE, Inc.

(Exact name of registrant as specified in its charter)

| OREGON | 93-0584541 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| One Bowerman Drive, Beaverton, Oregon | 97005-6453 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (503) 671-6453

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No ___

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes X No ___.

Common Stock shares outstanding as of November 30, 2003 were:

| | |
|---|---|
| Class A | 90,804,466 |
| Class B | 172,318,918 |
| | 263,123,384 |

PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | November 30, 2003 | May 31, 2003 |
|---|---|---|
| | (in millions) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and equivalents | $ 968.9 | $ 634.0 |
| Accounts receivable | 2,010.4 | 2,101.1 |
| Inventories (Note 2) | 1,592.0 | 1,514.9 |
| Deferred income taxes | 212.7 | 221.8 |
| Prepaid expenses and other current assets | 236.8 | 266.2 |
| Total current assets | 5,020.8 | 4,738.0 |
| Property, plant and equipment | 3,082.1 | 2,988.8 |
| Less accumulated depreciation | 1,476.1 | 1,368.0 |
| Property, plant and equipment, net | 1,606.0 | 1,620.8 |
| Identifiable intangible assets, net (Notes 3 and 7) | 368.5 | 118.2 |
| Goodwill (Notes 3 and 7) | 132.3 | 65.6 |
| Deferred income taxes and other assets | 248.9 | 229.4 |
| Total Assets | $7,376.5 | $6,772.0 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 206.1 | $ 205.7 |
| Notes payable | 142.4 | 75.4 |
| Accounts payable | 533.1 | 572.7 |
| Accrued liabilities | 992.7 | 1,054.2 |
| Income taxes payable | 121.7 | 107.2 |
| Total current liabilities | 1,996.0 | 2,015.2 |
| Long-term debt | 649.6 | 551.6 |
| Deferred income taxes and other liabilities (Note 7) | 363.3 | 214.2 |
| Commitments and contingencies (Note 9) | -- | -- |
| Redeemable preferred stock | 0.3 | 0.3 |
| Shareholders' equity: | | |
| Common stock at stated value: | | |
| Class A convertible-90.8 and 97.8 shares outstanding | 0.2 | 0.2 |
| Class B-172.3 and 165.8 shares outstanding | 2.6 | 2.6 |

| | | |
|---|---|---|
| Capital in excess of stated value | 727.4 | 589.0 |
| Unearned stock compensation | (7.0) | (0.6) |
| Accumulated other comprehensive loss | (159.6) | (239.7) |
| Retained earnings | 3,803.7 | 3,639.2 |
| Total shareholders' equity | 4,367.3 | 3,990.7 |
| Total liabilities and shareholders' equity | $7,376.5 | $6,772.0 |

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions, except per share data) | | | |
| Revenues | $2,837.1 | $2,514.7 | $5,862.0 | $5,311.0 |
| Cost of sales | 1,637.5 | 1,504.6 | 3,360.9 | 3,143.8 |
| Gross Margin | 1,199.6 | 1,010.1 | 2,501.1 | 2,167.2 |
| Selling and administrative | 902.5 | 761.9 | 1,772.1 | 1,566.5 |
| Interest expense, net | 8.1 | 7.1 | 15.6 | 14.5 |
| Other expense, net | 14.3 | 11.5 | 38.1 | 22.5 |
| Income before income taxes and cumulative effect of accounting change | 274.7 | 229.6 | 675.3 | 563.7 |
| Income taxes | 95.6 | 77.6 | 235.0 | 194.5 |
| Income before cumulative effect of accounting change | 179.1 | 152.0 | 440.3 | 369.2 |
| Cumulative effect of accounting change, net of income taxes | -- | -- | -- | 266.1 |
| Net income | $ 179.1 | $ 152.0 | $ 440.3 | $ 103.1 |
| Basic earnings per common share (Note 6): | | | | |
| Before accounting change | $ 0.68 | $ 0.57 | $ 1.67 | $ 1.39 |
| Cumulative effect of accounting change | -- | -- | -- | (1.00) |
| | $ 0.68 | $ 0.57 | $ 1.67 | $ 0.39 |

| | | | | |
|---|---|---|---|---|
| Diluted earnings per common share (Note 6): | | | | |
| Before accounting change | $ 0.66 | $ 0.57 | $ 1.64 | $ 1.38 |
| Cumulative effect of accounting change | -- | -- | -- | (0.99) |
| | $ 0.66 | $ 0.57 | $ 1.64 | $ 0.39 |
| Dividends declared per common share | $ 0.20 | $ 0.14 | $ 0.34 | $ 0.26 |

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

NIKE, Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended November 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (in millions) | |
| Cash provided (used) by operations: | | |
| Net income | $ 440.3 | $ 103.1 |
| Income charges (credits) not affecting cash: | | |
| Cumulative effect of accounting change | -- | 266.1 |
| Depreciation | 123.2 | 114.4 |
| Deferred income taxes | 12.1 | 0.1 |
| Amortization and other | 35.2 | 7.5 |
| Income tax benefit from exercise of stock options | 19.4 | 2.2 |
| Changes in other working capital components, net of the effect of the acquisition of subsidiary | 138.9 | (93.4) |
| Cash provided by operations | 769.1 | 400.0 |
| Cash provided (used) by investing activities: | | |
| Additions to property, plant and equipment | (88.0) | (86.6) |
| Disposals of property, plant and equipment | 3.2 | 7.2 |
| Increase in other assets | (9.7) | (29.3) |
| (Decrease) increase in other liabilities | (0.3) | 1.1 |
| Acquisition of subsidiary, net of cash acquired | (288.9) | -- |

| | | |
|---|---|---|
| Cash used by investing activities | (383.7) | (107.6) |
| Cash provided (used) by financing activities: | | |
| Proceeds from long-term debt issuance | 101.8 | 90.1 |
| Reductions in long-term debt including current portion | (3.0) | (52.9) |
| Decrease in notes payable | (0.3) | (163.5) |
| Proceeds from exercise of options and other stock issuances | 115.3 | 11.3 |
| Repurchase of stock | (195.5) | (97.3) |
| Dividends on common stock | (73.7) | (63.8) |
| Cash used by financing activities | (55.4) | (276.1) |
| Effect of exchange rate changes on cash | 4.9 | (36.0) |
| Net increase (decrease) in cash and equivalents | 334.9 | (19.7) |
| Cash and equivalents, May 31, 2003 and 2002 | 634.0 | 575.5 |
| Cash and equivalents, November 30, 2003 and 2002 | $ 968.9 | $ 555.8 |

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

NIKE, Inc.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - Summary of Significant Accounting Policies:

Basis of presentation:

The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim period. The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the six (6) months ended November 30, 2003 are not necessarily indicative of results to be expected for the entire year.

Certain prior year amounts have been reclassified to conform to fiscal year 2004 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

### NOTE 2 - Inventories:

Inventories by major classification are as follows:

| | Nov. 30, 2003 | May 31, 2003 |
|---|---|---|
| | (in millions) | |
| Finished goods | $1,568.8 | $1,484.1 |
| Work-in-progress | 8.0 | 15.2 |
| Raw materials | 15.2 | 15.6 |
| | $1,592.0 | $1,514.9 |

NOTE 3 - Identifiable Intangible Assets and Goodwill:

The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," (FAS 142) effective June 1, 2002. In accordance with FAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized but instead will be measured for impairment annually in the fourth quarter, or when events indicate that an impairment exists. Intangible assets that are determined to have definite lives will continue to be amortized over their useful lives.

The following table summarizes the Company's identifiable intangible assets and goodwill balances as of November 30, 2003 and May 31, 2003:

| | November 30, 2003 | | May 31, 2003 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| | (in millions) | | | |
| Amortized intangible assets: | | | | |
| Patents | $ 25.5 | $ (11.1) | $ 24.9 | $ (10.4) |
| Trademarks | 13.3 | (11.0) | 12.9 | (10.6) |
| Other | 16.8 | (6.4) | 7.5 | (1.1) |
| Total | $ 55.6 | $ (28.5) | $ 45.3 | $ (22.1) |
| Unamortized intangible assets: | | | | |
| Goodwill | $ 132.3 | | $ 65.6 | |
| Trademarks | 341.4 | | 95.0 | |
| Total | $ 473.7 | | $ 160.6 | |

Amortization expense, which is included in selling and administrative expense, was $5.5 million and $0.8 million for the three-month periods ended November 30, 2003 and November 30, 2002, respectively, and $6.4 million and

$1.9 million for the six-month periods ended November 30, 2003 and November 30, 2002, respectively. The estimated amortization expense for intangible assets subject to amortization for each of the succeeding years ended May 31, 2004 through May 31, 2008 are as follows: 2004: $11.9 million; 2005: $3.2 million; 2006: $2.9 million; 2007: $2.4 million; 2008: $2.2 million.

During the second quarter ended November 30, 2003 the Company completed the acquisition of Converse Inc. As a result, $66.7 million was allocated to goodwill, $246.2 million was allocated to unamortized trademarks and $8.6 million was allocated to other amortized intangible assets. See note 7 for additional information related to the acquisition.

The change in the book value of goodwill, which relates to the Company's Other operating segment, for the six months ended November 30, 2003 is as follows:

| | |
|---|---|
| May 31, 2003 | $ 65.6 |
| Acquisition of Subsidiary | 66.7 |
| November 30, 2003 | $ 132.3 |

NOTE 4 - Comprehensive Income:

Comprehensive income, net of taxes, is as follows:

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions) | | | |
| Net Income | $179.1 | $152.0 | $440.3 | $103.1 |
| Other Comprehensive Income (Loss): | | | | |
| Change in cumulative translation adjustment and other | 75.7 | 4.9 | 16.5 | 17.2 |
| Changes due to cash flow hedging instruments: | | | | |
| Net loss on hedge derivatives | (104.2) | (8.3) | (17.7) | (92.5) |
| Reclassification to net income of previously deferred (gains) and losses related to hedge derivative instruments | 34.8 | 24.9 | 81.3 | 47.9 |
| Other Comprehensive Income (Loss) | 6.3 | 21.5 | 80.1 | (27.4) |
| Total Comprehensive Income | $185.4 | $173.5 | $520.4 | $ 75.7 |

NOTE 5 - Stock-Based Compensation:

The Company uses the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" as permitted by Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation" (FAS 123). The Company's policy is to grant stock options with an exercise price equal to the market value at the date of grant, and accordingly, no compensation expense is recognized.

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

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions, except per share data) | | | |
| Net Income as reported | $179.1 | $152.0 | $440.3 | $103.1 |
| Add: Stock-based compensation expense included in reported net income, net of tax | -- | -- | -- | -- |
| Deduct: Total stock-based employee compensation expense under fair value based method for all awards, net of tax | (12.1) | (11.2) | (23.3) | (19.7) |
| Pro forma net income | $167.0 | $140.8 | $417.0 | $ 83.4 |
| Earnings per share: | | | | |
| Basic - as reported | 0.68 | 0.57 | 1.67 | 0.39 |
| Basic - pro forma | 0.63 | 0.53 | 1.58 | 0.31 |
| Diluted - as reported | 0.66 | 0.57 | 1.64 | 0.39 |
| Diluted - pro forma | 0.63 | 0.53 | 1.57 | 0.31 |

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 periods since options vest over several years and additional awards are made each year.

NOTE 6 - Earnings Per Common Share:

The following represents a reconciliation from basic earnings per share to diluted earnings per share. Options to purchase 1.0 million and 12.0 million shares of common stock were outstanding at November 30, 2003 and November 30, 2002, 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 common shares and, therefore, the effect would be antidilutive.

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in millions, except per share data) | | | |
| Determination of shares: | | | | |
| Average common shares outstanding | 263.3 | 264.7 | 263.1 | 265.0 |
| Assumed conversion of dilutive stock options and awards | 6.2 | 2.8 | 5.2 | 3.3 |
| Diluted average common shares outstanding | 269.5 | 267.5 | 268.3 | 268.3 |
| Basic earnings per common share: | | | | |
| Before cumulative effect of accounting change | $ 0.68 | $ 0.57 | $ 1.67 | $ 1.39 |
| Cumulative effect of accounting change | -- | -- | -- | (1.00) |
| | $ 0.68 | $ 0.57 | $ 1.67 | $ 0.39 |
| Diluted earnings per common share: | | | | |
| Before cumulative effect of accounting change | $ 0.66 | $ 0.57 | $ 1.64 | $ 1.38 |
| Cumulative effect of accounting change | -- | -- | -- | (0.99) |
| | $ 0.66 | $ 0.57 | $ 1.64 | $ 0.39 |

NOTE 7 - Acquisition:

On September 4, 2003, the Company acquired 100 percent of the equity shares of Converse Inc. ("Converse"). Converse designs, distributes, and markets high performance and casual athletic footwear and apparel. The acquisition has been accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations". The cash purchase price, including acquisition costs, was approximately $310 million. The results of Converse's operations have been included in the consolidated financial statements since the date of acquisition as part of the Company's Other operating segment.

All assets and liabilities of Converse have been recorded in the Company's consolidated balance sheet based on their estimated fair values at the date of acquisition. Identifiable intangible assets and goodwill relating to the purchase approximated $254.8 and $66.7 million, respectively. Identifiable intangible assets include $246.2 million for trademarks that have an indefinite life, and $8.6 million of other intangible assets that are being amortized over nine months. Deferred taxes of $105.1 million have been provided for the

purchase of the identifiable intangible assets, which is the primary reason for goodwill. The pro forma effect of the acquisition on the combined results of operations was not significant.

NOTE 8 - Operating Segments:

The Company's operating segments are evidence of the structure of the Company's internal organization. The major segments are defined by geographic regions with operations participating in NIKE brand sales activity. Each NIKE brand geographic segment operates predominantly in one industry: the design, production, marketing and selling of sports and fitness footwear, apparel, and equipment. The "Other" category shown below represents activities of Cole Haan Holdings, Inc., Bauer NIKE Hockey, Inc., Hurley International LLC, NIKE Golf and Converse Inc., beginning September 4, 2003, which are considered 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. Effective June 1, 2003 the assets, liabilities, and operating expenses of NIKE IHM, Inc., which primarily manufactures NIKE Air components, have been reclassified to the Corporate category from Other, reflecting current management of these operations. NIKE IHM, Inc. information for the applicable prior year period has been reclassified to conform to the current year presentation.

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 pre-tax income. On a consolidated basis, this amount represents Income before income taxes and cumulative effect of accounting change as shown in the Unaudited Condensed Consolidated Statements of Income. Reconciling items for pre-tax income represent corporate costs that are not allocated to the operating segments for management reporting including certain currency exchange rate gains and losses on transactions and intercompany eliminations for specific items in the Unaudited Condensed Consolidated Statements of Income.

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

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net Revenue | | | | |
| USA | $1,085.6 | $1,032.6 | $2,339.5 | $2,315.2 |
| EUROPE, MIDDLE EAST, AFRICA | 848.9 | 781.2 | 1,862.4 | 1,650.6 |
| ASIA PACIFIC | 412.7 | 350.4 | 761.0 | 658.2 |
| AMERICAS | 156.1 | 133.5 | 309.8 | 275.8 |
| OTHER | 333.8 | 217.0 | 589.3 | 411.2 |
| | $2,837.1 | $2,514.7 | $5,862.0 | $5,311.0 |

Pre-Tax Income

| | | | | |
|---|---|---|---|---|
| USA | $ 193.4 | $ 173.0 | $ 489.0 | $ 456.9 |
| EUROPE, MIDDLE EAST, AFRICA | 139.4 | 125.0 | 344.0 | 287.3 |
| ASIA PACIFIC | 98.7 | 83.9 | 175.5 | 134.6 |
| AMERICAS | 31.4 | 28.5 | 55.7 | 53.7 |
| OTHER | 7.3 | 0.5 | 4.1 | (10.8) |
| CORPORATE | (195.5) | (181.3) | (393.0) | (358.0) |
| | $ 274.7 | $ 229.6 | $ 675.3 | $ 563.7 |

| | Nov. 30, 2003 | May 31, 2003 |
|---|---|---|
| Accounts Receivable, net | | |
| USA | $ 590.3 | $ 609.5 |
| EUROPE, MIDDLE EAST, AFRICA | 687.2 | 792.6 |
| ASIA PACIFIC | 269.0 | 245.6 |
| AMERICAS | 136.2 | 130.0 |
| OTHER | 289.7 | 282.0 |
| CORPORATE | 38.0 | 41.4 |
| | $2,010.4 | $2,101.1 |
| Inventories, net | | |
| USA | $ 606.8 | $ 640.6 |
| EUROPE, MIDDLE EAST, AFRICA | 407.3 | 383.4 |
| ASIA PACIFIC | 156.1 | 143.5 |
| AMERICAS | 86.4 | 84.2 |
| OTHER | 309.9 | 239.4 |
| CORPORATE | 25.5 | 23.8 |
| | $1,592.0 | $1,514.9 |
| Property, Plant and Equipment, net | | |
| USA | $ 204.8 | $ 215.7 |
| EUROPE, MIDDLE EAST, AFRICA | 232.0 | 241.4 |
| ASIA PACIFIC | 401.9 | 386.3 |
| AMERICAS | 11.2 | 11.0 |
| OTHER | 95.4 | 82.1 |
| CORPORATE | 660.7 | 684.3 |
| | $1,606.0 | $1,620.8 |

NOTE 9 - Commitments and Contingencies:

At November 30, 2003, the Company had letters of credit outstanding totaling $479.7 million. These letters of credit were issued primarily for the purchase of inventory.

There have been no other significant subsequent developments relating to the commitments and contingencies reported on the Company's most recent Form 10-K.

Item 2. 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 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 in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our most recent Annual Report on Form 10-K 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 that would result in materially different amounts being reported.

## Operating Results

### Consolidated Operating Results

- Revenue for the second quarter of fiscal 2004 was $2.8 billion, a 13% increase versus the second quarter of fiscal 2003. Revenue for the first six months of fiscal 2004 was $5.9 billion, up 10% versus the same period of fiscal 2003.

- Gross margin for the second quarter of fiscal 2004 was 42.3% of revenues, up from 40.2% for the second quarter of the prior year. Gross margin for the first six months of fiscal 2004 was 42.7%, up from 40.8% for the first six months of the prior year.

- Selling and administrative expense for the second quarter of fiscal 2004 increased 18% versus the second quarter of the prior year, to $902.5 million, and was 31.8% as a percentage of revenues versus 30.3% for the second quarter of the prior year. Selling and administrative expense for the first six months of fiscal 2004 increased 13% versus the first six months of the prior year, and was 30.2% as a percentage of revenues versus 29.5% for the first six months of the prior year.

- Net income for the second quarter of fiscal 2004 was $179.1 million, an 18% increase versus the second quarter of fiscal 2003. Net income

for the first six months of fiscal 2004 was $440.3 million, up 19% versus the first six months of the prior year before the cumulative effect of accounting change in the first quarter of the prior year. Net income for the first six months of the prior year after the cumulative effect of the accounting change was $103.1 million.

- Diluted earnings per share for the second quarter of fiscal 2004 were $0.66, up 16% versus the second quarter of the prior year. Diluted earnings per share for the first six months of fiscal 2004 were $1.64, a 19% increase before the cumulative effect of an accounting change in the first quarter of the prior year. Diluted earnings per share for the first six months of the prior year after the cumulative effect of the accounting change were $0.39.

Revenue from our international regions increased 12% for the second quarter and 13% for the first six months of fiscal 2004 which contributed 6 percentage points and 7 percentage points of growth, respectively, to consolidated revenue. All of the second quarter growth and all but one percentage point of the six month growth from our international regions can be attributable to changes in currency exchange rates, primarily the euro.

As previously disclosed in our quarterly report on Form 10-Q for the quarter ended November 30, 2002, in the prior year we accelerated approximately $66 million of deliveries from the third quarter to the second quarter as we prepared to implement new supply chain systems in our Europe, Middle East and Africa (EMEA) Region. This shift in the timing of shipments in the prior year reduced international revenue growth comparisons for the second quarter and first six months of fiscal 2004 by 6 percentage points and 3 percentage points, respectively; the impact on consolidated revenue growth was 3 percentage points and 1 percentage point, respectively.

The acquisition of Converse during the quarter contributed 2 percentage points of consolidated revenue growth in the second quarter and one percentage point of growth for the first six months of fiscal 2004. See Note 7 - Acquisitions for additional information related to the acquisition. Revenue growth in the U.S. Region contributed 2 percentage points of consolidated revenue growth in the second quarter and 40 basis points (0.40 percentage points) of growth for the first six months of fiscal 2004. The remaining increase in consolidated revenue is due to growth in our Other segment, in addition to that of Converse as noted above. See further discussion of revenues in Operating Segments below.

In the second quarter of fiscal 2004, our consolidated gross margin percentage improved 210 basis points versus the prior year, from 40.2% to 42.3%. For the first six months of fiscal 2004, our consolidated gross margin percentage improved 190 basis points compared to the first six months of the prior year, from 40.8% to 42.7%. The primary factors contributing to the improved gross margin percentages for the second quarter and year-to-date periods were as follows:

(1) A reduced level of closeout sales as a percentage of total sales, improved margins on those closeout sales, and an improved mix of product in inventory, primarily in the U.S. and EMEA regions. These factors represent approximately 90 basis points of improvement for the quarter, and 70 basis points of improvement for the year-to-date period.

(2) Higher pricing margins for in-line products (i.e. current product offerings), due to lower air freight, lower product costs from manufacturing efficiencies and reduced material costs, and a higher mix of sales of classic footwear models. These factors represent approximately 60 basis points of improvement for the

quarter and 40 basis points of improvement year-to-date.

(3) Changes in currency exchange rates, primarily the Euro, represent 30 basis points and 40 basis points of improvement for the quarter and year-to-date periods, respectively.

Second quarter selling and administrative expense, comprised of demand creation and operating overhead, grew 18% versus the prior year quarter. Year-to-date fiscal 2004 selling and administrative expense increased 13% over the prior year period. Demand creation expense grew 25% to $340.6 million in the second quarter of fiscal 2004 while year-to-date demand creation expense increased 12% to $664.7 million. Seven percentage points of the increase for the second quarter and 6 percentage points of the year-to-date increase were due to changes in currency exchange rates. Excluding the impact of currency, the increase in demand creation spending for the second quarter is attributable to higher spending for advertising primarily in the U.S., EMEA, and Asia Pacific regions (8 percentage point impact) and higher spending on endorsement contracts primarily related to basketball in the U.S. and soccer in EMEA (5 percentage point impact). The addition of Converse also had a 3 percentage point impact on demand creation for the quarter. The overall increase in demand creation for the year-to-date period was due to the second quarter factors as explained above.

Operating overhead for the second quarter of fiscal 2004 was $561.9 million, a 15% increase over the second quarter of fiscal 2003. For the first six months of fiscal 2004, operating overhead increased 14% to $1,107.4 million. Currency exchange rates contributed 4 percentage points of the increase for the second quarter, and 5 percentage points of the increase for the first six months. The addition of Converse accounted for 3 percentage points of growth for the second quarter and 2 points of growth year-to-date. Excluding the effects of currency and Converse, operating overhead increases for the quarter were mainly attributable to: a) higher net bad debt expense (3 percentage points); b) increased costs to support the growth of our NIKE Golf, Cole Haan, Bauer NIKE Hockey and Hurley businesses (2 percentage points); and c) normal wage increases and some added infrastructure, including costs around our worldwide supply chain initiative, necessary to support the global business growth. The overall increase in operating overhead for the year-to-date period was consistent with those of the quarter.

Other expense, net, was $14.3 million for the second quarter of fiscal 2004 compared to $11.5 million in the second quarter of fiscal 2003. Other expense, net, for the first six months of fiscal 2004 was $38.1 million compared to $22.5 million for the same period of fiscal 2003. Beginning this fiscal year, interest income and profit sharing expense previously included in other expense, net, are included in interest expense, net, and selling and administrative, respectively. The presentation of prior year amounts has been adjusted to conform to the current classification. The most significant component of other expense, net, comprising approximately 45% of this year's quarterly and year-to-date net expense, is foreign currency losses primarily hedge losses on intercompany charges to a European subsidiary, whose functional currency is the euro. These losses are reflected in the Corporate line in our segment presentation of pre-tax income in Note 8 - Operating Segments. The hedge losses reflected that the euro has strengthened considerably since we entered into these hedge contracts.

In the second quarter and the first six months of fiscal 2004, net foreign currency losses in other expense, net, were more than offset by favorable translation of foreign currency denominated profits, most significantly in EMEA. Our estimate of the net impact of these losses and the favorable translation is a $30 million addition to consolidated income before income taxes compared to the prior year second quarter and $64 million compared to the first six months of the prior year. Consistent with our

existing policies, we have also hedged a portion of anticipated intercompany charges for the balance of fiscal 2004. As the euro has strengthened since these hedge contracts were executed, we expect to continue to incur some hedge losses for the balance of fiscal 2004. However, at current exchange rates, we expect the net impact of the hedge losses and the offsetting positive translation impact will result in a net benefit to fiscal 2004 consolidated net income versus the prior year.

Our effective tax rate for the first six months of fiscal 2004 was 34.8%, relatively consistent with the first six months of fiscal 2003 rate of 34.5%, but higher than the full year rate for fiscal 2003 of 34.1%. This increase compared to fiscal 2003 anticipates higher taxes on foreign earnings.

Included in net income for the first six months of fiscal 2003 was a $266.1 million charge for the cumulative effect of implementing Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," (FAS 142). This charge related to the impairment of goodwill and trademarks associated with Bauer NIKE Hockey and the goodwill of Cole Haan, reflecting that the fair values we estimated for these assets were less than the carrying values. See the Notes to Consolidated Financial Statements (Note 4 - Identifiable Intangible Assets and Goodwill) in our Annual Report on Form 10-K as of May 31, 2003 for further information.

Operating Segments

Our largest international region, EMEA, reported 9% revenue growth for the second quarter of fiscal 2004 compared to fiscal 2003 and 13% revenue growth in the first six months of fiscal 2004. All business units experienced growth in revenues for the quarter and six-month periods. The second quarter growth reflected a 15 percentage point improvement and the year-to-date period reflected a 17 percentage point improvement due to changes in currency exchange rates. As discussed above, in the prior year we accelerated approximately $66 million of deliveries into the second quarter from the third quarter in advance of implementing new supply chain systems in Europe. This shift reduced comparable revenue growth for the quarter by 9 percentage points and by 4 percentage points for the year-to-date period. If we remove the effects of currency and shipment timing in the prior year, fiscal 2004 revenue for the EMEA Region would have grown approximately three percent in the second quarter, primarily due to increased footwear volume, and would have been flat for the first six months.

EMEA pre-tax income for the second quarter of fiscal 2004 was $139.4 million, up 12% versus the prior year quarter. For the first six months of fiscal 2004, pretax income grew 20% to $344.0 million. For the quarter and the six month periods, higher revenues and gross margin improvements drove the increase, more than offsetting incremental selling and administrative costs. The improved gross margins were primarily the result of a lower level of closeout sales and higher closeout margins, and changes in currency exchange rates. See further discussion regarding gross margins and selling and administrative costs in Consolidated Operating Results.

In the Asia Pacific Region, revenues increased 18% year-over-year in the second quarter of fiscal 2004 and increased 16% year-over-year in the first six months of fiscal 2004. Five percentage points of growth for both the second quarter and the first six months were due to changes in currency exchange rates. Excluding the currency benefit, sales in each Asia Pacific business unit grew for both the quarter and year-to-date periods. The region's revenue growth was primarily attributed to volume increases. Significant revenue increases in China and Korea, driven by expansion of retail distribution and strong consumer demand, as well as continued growth in Japan were key growth drivers for the quarter and year-to-date periods.

Pre-tax income for the Asia Pacific Region increased to $98.7 million in the second quarter of fiscal 2004, up from $83.9 million in the second quarter of fiscal 2003, and increased from $134.6 million to $175.5 million in the fiscal 2004 year-to-date period. For the quarter, higher revenues and gross margin improvements drove the increase, more than offsetting incremental selling and administrative costs. The higher gross margins were attributable to improved in-line margins across footwear, apparel and equipment. For the six-month period, gross margins improved, while selling and administrative spending declined as a percent of revenue as a result of lower demand creation expenses versus the prior year investment in marketing the 2002 World Cup. See further discussion regarding gross margins and selling and administrative costs in Consolidated Operating Results.

In the Americas Region, revenues increased 17% for the second quarter of fiscal 2004, with 8 percentage points of the growth due to changes in currency exchange rates, while the year-to-date fiscal 2004 revenues increased 12% with 5 percentage points of the growth due to changes in currency exchange rates. Excluding the currency effects, the revenue growth for the quarter and year-to-date periods was driven by stronger consumer demand in South and Central America. Sales in Mexico were up slightly, but sales were down in Canada due to lower consumer demand. Excluding the currency exchange rate impact, the region experienced sales growth for the quarter and year-to-date periods for footwear and equipment, slightly offset by a small decrease in apparel.

In the second quarter of fiscal 2004, pre-tax income for the Americas Region increased 10% from the prior year quarter, to $31.4 million. Year-to-date fiscal 2004 pre-tax income increased 4% to $55.7 million. The increase in pre-tax income was attributable to higher revenues partially offset by reduced gross margins and higher selling and administrative costs. The reduced gross margins are due to less favorable wholesale pricing in Mexico and less favorable currency rates on product purchases in Mexico and Brazil. See further discussion regarding selling and administrative costs in Consolidated Operating Results.

In the U.S. Region, revenues for the second quarter of fiscal 2004 grew 5% versus the second quarter of fiscal 2003, and revenues for the first six months of fiscal 2004 grew 1% versus the year-ago period. In the second quarter, footwear revenue increased 5% and apparel revenue increased 8%, while equipment revenue was down 6%. For the first six months of fiscal 2004, footwear revenue was down 1% and equipment revenue was down 5%, while apparel revenue increased 7%. The increase in apparel sales for the second quarter and six month periods was primarily driven by increased consumer demand for team licensed apparel.

The increase in footwear revenue for the quarter was due to approximately a 4 percentage point increase in average wholesale selling price, as the sales of $100 and over (suggested retail price) product grew and closeout product sales declined compared to the prior year second quarter. Growth in NIKE retail volume also contributed to the overall footwear improvement in the quarter. The year-to-date fiscal 2004 decline in footwear revenue of 1% was primarily due to a decrease in wholesale volume resulting from the impact of our redistribution strategy, which included reduced orders from our largest customer (Foot Locker) and reduced premium product offerings to them. These redistribution changes were previously disclosed in our Annual Report on Form 10-K as of May 31, 2003. The reduction in footwear sales to Foot Locker was partially offset by growth in sales to other wholesale customers and increased sales through NIKE-owned retail stores.

During the quarter, the company announced plans to execute joint marketing programs with Foot Locker to develop innovative retail presentations of NIKE performance products at select Foot Locker locations in the U.S. beginning with the Fall 2004 season. As part of those programs, additional

premium product offerings will be available to select Foot Locker locations beginning May 2004. As these plans are executed, we expect our footwear sales with Foot Locker to increase. However, since our total revenue is derived from sales to many customers, growth in sales to Foot Locker may not translate directly to growth in overall footwear revenue. See further information regarding worldwide futures and advance orders below.

For the second quarter, U.S. Region pre-tax income was $193.4 million, a 12% increase versus the second quarter of fiscal 2003. Pre-tax income for the first six months of fiscal 2004 increased 7% to $489.0 million. For the quarter and year-to-date periods, higher revenues and gross margins drove the increase, more than offsetting higher selling and administrative costs. The improved gross margins were primarily the result of higher in-line product margins, including reduced air freight, and improved margins on closeout sales. See further discussion regarding gross margins and selling and administrative costs in Consolidated Operating Results.

Other revenues and pre-tax income for the second quarter of fiscal 2004 include results from Bauer NIKE Hockey, Inc., Cole Haan Holdings, Inc., Converse Inc., Hurley International LLC, and NIKE Golf. Other revenues grew 54% in the second quarter of fiscal 2004 compared to fiscal 2003 and grew 43% in the first six months of fiscal 2004 versus the prior year period. The addition of Converse contributed 28 percentage points of the increase for the quarter and 15 percentage points of the increase for the first six months. The remaining increase is due to growth in each of the other businesses, most significantly NIKE Golf and Cole Haan.

Other pre-tax income improved to $7.3 million in the second quarter of fiscal 2004 from $0.5 million in fiscal 2003 and improved to $4.1 million in the year-to-date fiscal 2004 period from a loss of $10.8 million in the same period of last year. The addition of Converse combined with improved results from NIKE Golf and Cole Haan drove the year-over-year improvement.

The breakdown of revenues follows:

| | Three Months Ended November 30, | | | Six Months Ended November 30 | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % change | 2003 | 2002 | % change |
| | (in millions) | | | | | |
| U.S. REGION | | | | | | |
| FOOTWEAR | $ 624.0 | $ 596.1 | 5% | $1,446.4 | $1,461.1 | -1% |
| APPAREL | 398.3 | 369.5 | 8% | 744.8 | 698.2 | 7% |
| EQUIPMENT | 63.3 | 67.0 | -6% | 148.3 | 155.9 | -5% |
| TOTAL U.S. | 1,085.6 | 1,032.6 | 5% | 2,339.5 | 2,315.2 | 1% |
| EMEA REGION | | | | | | |
| FOOTWEAR | 472.5 | 436.7 | 8% | 1,062.5 | 929.4 | 14% |
| APPAREL | 324.9 | 294.9 | 10% | 666.8 | 605.7 | 10% |
| EQUIPMENT | 51.5 | 49.6 | 4% | 133.1 | 115.5 | 15% |

| | | | | | | |
|---|---|---|---|---|---|---|
| TOTAL EMEA | 848.9 | 781.2 | 9% | 1,862.4 | 1,650.6 | 13% |
| ASIA PACIFIC REGION | | | | | | |
| FOOTWEAR | 205.6 | 170.0 | 21% | 408.4 | 350.5 | 17% |
| APPAREL | 174.5 | 151.1 | 15% | 287.8 | 250.0 | 15% |
| EQUIPMENT | 32.6 | 29.3 | 11% | 64.8 | 57.7 | 12% |
| TOTAL ASIA PACIFIC | 412.7 | 350.4 | 18% | 761.0 | 658.2 | 16% |
| AMERICAS REGION | | | | | | |
| FOOTWEAR | 103.7 | 83.0 | 25% | 206.8 | 176.0 | 18% |
| APPAREL | 41.9 | 40.5 | 3% | 81.3 | 79.1 | 3% |
| EQUIPMENT | 10.5 | 10.0 | 5% | 21.7 | 20.7 | 5% |
| TOTAL AMERICAS | 156.1 | 133.5 | 17% | 309.8 | 275.8 | 12% |
| | 2,503.3 | 2,297.7 | 9% | 5,272.7 | 4,899.8 | 8% |
| OTHER | 333.8 | 217.0 | 54% | 589.3 | 411.2 | 43% |
| TOTAL REVENUES | $2,837.1 | $2,514.7 | 13% | $5,862.0 | $5,311.0 | 10% |

The previous discussion includes disclosure of "pre-tax income" for our operating segments. We have reported pre-tax income for each of our operating segments in accordance with Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information." As discussed in Note 8 - Operating Segments in the attached Notes to Consolidated Financial Statements, certain corporate costs are not included in pre-tax income of our operating segments.

Worldwide futures and advance orders for our footwear and apparel scheduled for delivery from December 2003 through April 2004 were 9.7% higher than such orders reported in the comparable period of fiscal 2003. Four points of this reported increase were due to changes in currency exchange rates versus the same period last year. As always, the reported futures orders growth is not necessarily indicative of our expectation of revenue growth during this period. 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 futures orders and actual revenues. Moreover, a significant portion of our revenue is not derived from futures orders, including wholesale sales of equipment, U.S. licensed team apparel, Bauer NIKE Hockey, Cole Haan, Converse, NIKE Golf, Hurley, and retail sales across all brands.

## Liquidity and Capital Resources

### Cash Flow Activity

Cash provided by operations was $769.1 million in the first six months of fiscal 2004, compared to $400.0 million in the first six months of fiscal 2003. Our primary source of operating cash flow in the current period was net

income of $440.3 million. In addition to the improvement in net income, the year-over-year increase in cash provided by operations was attributable to changes in our investment in working capital. In the first six months of fiscal 2003, our net investment in working capital increased partially due to increased accounts receivable resulting from the accelerated shipping in EMEA as previously discussed. In the first six months of fiscal 2004, our net investment in working capital improved due to a reduction in accounts receivable resulting from improved account management combined with more normal shipping patterns.

Total cash used by investing activities during the first six months of fiscal 2004 was $383.7 million, compared to $107.6 million in the prior year period. The acquisition of Converse represents the most significant use of cash during the period. The remaining investing activities are consistent with the prior year and primarily reflect capital expenditures on computer equipment and software to support both normal business operations as well as our supply chain systems upgrade, continued investment in NIKE-owned retail stores, and selected warehouse improvements.

During the first six months of fiscal 2004, the principal uses of cash for financing activities were share repurchases and dividends, partially offset by proceeds from the exercise of stock options. These financing activities were higher than the prior year partially due to an increase in the market price of the company stock, which increased stock option exercises and provided additional cash flows to be utilized in the share repurchase program.

The share repurchases were part of a $1 billion share repurchase program that began in fiscal 2001. In the current quarter, we purchased approximately 1.6 million shares of NIKE's Class B common stock for $100.5 million, bringing purchases for the first six months of fiscal 2004 to 3.3 million shares for $190.0 million. To date under the program, we have purchased 15.6 million shares for $775.7 million. We expect to continue to fund this program from operating cash flow. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

As a result of the above, our cash balance increased by $334.9 million during the first six months of fiscal 2004.

Long-term Financial Obligations and Other Commercial Commitments

As a result of modifications and additions to outstanding endorsement contracts and the impact of changes in foreign exchange rates on such obligations, the cash payments due under our endorsement contracts have changed from what was previously reported in our Annual Report on Form 10-K as of May 31, 2003.

Significant endorsement contracts entered into through the date of this report are as follows:

| | Cash Payments Due During the Year Ended May 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| Description of Commitment | Remaining 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
| | (In millions) | | | | | | |
| Endorsement Contracts | 197.2 | 323.6 | 275.8 | 266.0 | 166.1 | 405.7 | 1,634.4 |

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 may be higher than the amounts listed as these contracts provide for bonuses to be paid to the endorsers based upon athletic achievements and/or royalties on product sales 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.

There has not been a material change to any of our other long-term contractual obligations from what was previously reported in our Annual Report on Form 10-K as of May 31, 2003.

Capital Resources

In October 2001, we filed a shelf registration statement with the securities and Exchange Commission (SEC) under which $1.0 billion in debt securities may be issued. In May 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. During the second quarter, we issued three notes under the medium-term note program totaling $100 million. Two of the notes totaling $50 million have fixed interest rates of 5.15% and mature on October 15, 2015. The other $50 million note has an interest coupon rate of 4.70% and matures on October 1, 2013. For each of the 5.15% notes maturing October 15, 2015, we have 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. The swaps have the same notional amounts and maturity dates as the notes, and are accounted for as fair value hedges under Statement of Financial Accounting Standards (FAS) No. 133. For the 4.70% note maturing October 1, 2013 we have entered into an interest rate swap agreement whereby we receive fixed interest payments at the same rate as the note and pay variable interest payments based on the six-month LIBOR plus a spread for a term of three years. This swap has the same notional amount as the note, but expires October 2, 2006. Accordingly, the swap does not qualify for fair value hedge accounting, so changes in the fair value of this swap are recorded to net income each period. After issuance of these notes, $310.0 million remains available to be issued under our medium-term note program, and another $500.0 million remains available to be issued under our shelf registration statement. We may issue additional notes under the shelf registration in fiscal 2004 depending on general corporate needs.

On November 20, 2003 we put in place a new 5-year $750 million revolving credit facility with a group of banks. The maturity date is November 20, 2008 and the facility can be extended for one additional year on the anniversary date. We currently have no amounts outstanding under the facility. Our previous credit facility totaled $1 billion, and was made up of a $500 million 364 day facility and a $500 million multi-year facility. 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 would be the prevailing LIBOR plus 0.22%. The facility fee is 0.08% of the total commitment.

If our long-term debt rating were to decline, the facility fee and interest rate under our committed credit facility would increase. Conversely, if our long-term debt rating were to improve, the facility fee and interest rate 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. Under this committed credit facility, 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 capitalization ratio. 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 November 30, 2003, 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 foreseeable future.

Liquidity is also provided by our commercial paper program, under which there was no amount outstanding at November 30, 2003 or May 31, 2003. 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 in the foreseeable future.

Dividends declared per share of common stock for the second quarter of fiscal 2004 were $0.20 per share, which reflected a $0.06 increase compared to the previous quarterly dividend.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information previously reported under Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2003.

## Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Company's Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures as of November 30, 2003. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal controls over financial reporting.

## Special Note Regarding Forward-Looking Statements and Analyst Reports

Certain written and oral statements, other than purely historical information including estimates, projections, statements relating to NIKE's business plans, objectives and expected operating results, and the assumptions upon which those statements are based, made or incorporated by reference from time to time by NIKE or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "project," "will be," "will continue," "will likely result," or words or phrases of similar meaning. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by NIKE with the S.E.C., including Forms 8-K, 10-Q, and 10-K, and include, among others, the following: international, national and local general economic and market conditions; the size and growth of the overall athletic footwear, apparel, and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic footwear, apparel, and equipment for consumers and endorsers; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products, and sports; seasonal and geographic demand for NIKE products; difficulties in anticipating or forecasting changes in consumer preferences, consumer demand for NIKE products, and the various market factors described above; difficulties in implementing, operating, and maintaining NIKE's increasingly complex information systems and controls, including, without limitation, the systems related to demand and supply planning, and inventory control; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance "futures" orders may not be indicative of future revenues due to the changing mix of futures and at-once orders; the ability of NIKE to sustain, manage or forecast its growth and inventories; the size, timing and mix of purchases of NIKE's products; new product development and introduction; the ability to secure and protect trademarks, patents, and other intellectual property performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas and political and economic instability; changes in government regulations; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

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

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

## Part II - Other Information

Item 1.

Legal Proceedings

In October 2003, the Multnomah County Circuit Court for the State of Oregon entered a stipulation dismissing with prejudice the shareholder derivative lawsuit, Metivier v. DeNunzio, et al., 0104-04339, pursuant to a settlement agreement. As part of the settlement, we agreed to pay $400,000 to plaintiffs for attorney fees. Also as part of the settlement, another related shareholder derivative lawsuit, Lendman v. Knight, et al., CV-01-1153-AS, in the U.S. District Court for the District of Oregon, was dismissed with prejudice (which means the plaintiff cannot refile the action).

There have been no other significant developments from the information previously reported under Item 4 of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2003.

Item 4.

Submission of Matters to a Vote of Security Holders

The Company's annual meeting of shareholders was held on September 22, 2003. The shareholders elected for the ensuing year all of management's nominees for the Board of Directors, approved the amendment to the NIKE, Inc. 1990 Stock Incentive Plan, and ratified the appointment of PricewaterhouseCoopers LLP as independent accountants for fiscal 2004.

The voting results are as follows:

Election of Directors

| | Votes Cast | | |
|---|---|---|---|
| | For | Withheld | Broker Non-Votes |
| Directors Elected by holders of Class A Common Stock: | | | |
| Thomas E. Clarke | 97,386,687 | 3 | -0- |
| Ralph D. DeNunzio | 97,386,687 | 3 | -0- |
| Richard K. Donahue | 97,186,687 | 200,003 | -0- |
| Delbert J. Hayes | 97,386,687 | 3 | -0- |
| Douglas G. Houser | 97,386,687 | 3 | -0- |
| Jeanne P. Jackson | 97,386,687 | 3 | -0- |
| Philip H. Knight | 97,386,687 | 3 | -0- |
| Charles W. Robinson | 97,386,687 | 3 | -0- |
| John R. Thompson, Jr. | 97,186, 687 | 200,003 | -0- |

Elected by holders of

Class B Common Stock:

| | | | |
|---|---|---|---|
| Jill K. Conway | 138,066,352 | 3,482,703 | -0- |
| Alan B. Graf, Jr. | 124,178,601 | 17,370,454 | -0- |
| John E. Jaqua | 132,097,292 | 9,451,763 | -0- |
| A. Michael Spence | 124,113,224 | 17,435,831 | -0- |

| | For | Against | Abstain | Broker Non-Votes |
|---|---|---|---|---|
| Proposal 2 - Approval of the amendments to the NIKE, Inc. 1990 Stock Incentive Plan: | | | | |
| Class A and Class B Common Stock Voting Together | 153,849,747 | 65,362,232 | 1,376,452 | 19,656,241 |
| Proposal 3 - Ratify the appointment of PricewaterhouseCoopers LLP as independent accountants: | | | | |
| Class A and Class B Common Stock Voting Together | 218,820,704 | 20,047,516 | 1,241,948 | -0- |

Item 6. Exhibits and Reports on Form 8-K:

(a) EXHIBITS:

3.1 Restated Articles of Incorporation, as amended (incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1995).

3.2 Third Restated Bylaws, as amended (incorporated by reference from Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1995).

4.1 Restated Articles of Incorporation, as amended (see Exhibit 3.1).

4.2 Third Restated Bylaws, as amended (see Exhibit 3.2).

4.3 Credit Agreement dated as of November 20, 2003 among NIKE, Inc., Bank of America, N.A., individually and as Agent, and the other banks party thereto.

10.1 NIKE, Inc. 1990 Stock Incentive Plan Non-Statutory Stock Option Agreement.*

12.1 Computation of Ratio of Earnings to Fixed Charges.

31.1 Rule 13(a)-14(a) Certification of Chief Executive Officer.

31.2 Rule 13(a)-14(a) Certification of Chief Financial Officer.

32.1 Section 1350 Certificate of Chief Executive Officer.

32.2 Section 1350 Certificate of Chief Financial Officer.

* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K:

The following reports on Form 8-K were furnished during the fiscal quarter ending November 30, 2003:

September 18, 2003: Item 7. Financial Statements and Exhibits. Item 12. Results of Operations and Financial Condition. First Quarter Earnings Release.

September 25, 2003: Item 7. Financial Statements and Exhibits. Item 12. Results of Operations and Financial Condition. Transcript of Earnings Conference Call.

The following reports on Form 8-K were filed during the fiscal quarter ending November 30, 2003:

September 4, 2003: Item 5. Other Events. Press Release: NIKE, Inc. Completes Acquisition of Converse Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NIKE, Inc.
An Oregon Corporation

BY:/s/ Donald W. Blair

Donald W. Blair
Chief Financial Officer

DATED: January 12, 2004