



Nike update regarding Hugger and Vision Tex November 10, 2009

Nike is deeply concerned about the issues raised by the Worker Rights Consortium (WRC), the University of Washington, and others regarding the unannounced factory closures at the Hugger and Vision Tex factories in January 2009. Hugger and Vision Tex were subcontractors to two of Nike's primary contract factories in Honduras, Liberty de Honduras, in the case of Hugger, and New Holland/HB Sports, in the case of Vision Tex.

Nike has investigated the circumstances surrounding the closure of these two factories. We understand that this time delay has caused frustration for some of our stakeholders. Nike works with over 800 factories around the world. We continue to improve how we manage our data for such a vast and complex supply chain. This case is yet another step in that learning process.

More details regarding what we have learned about Hugger and Vision Tex are described below. It is important to note that, to the best of our knowledge, none of the products manufactured for Nike at either Hugger or Vision Tex was collegiate licensed apparel, aside from a one-time order of 800 units in 2007 for one university partner.

Hugger de Honduras

As mentioned above, Nike did not have a direct business relationship with Hugger. One of our primary contractors in Honduras, Liberty, sub-contracted a significant volume of Nike production to Hugger until 2006. According to our data, the Nike products that were made at Hugger were blank products that were not being produced for any university license partners.

In 2007, Nike initiated a planned ramp-down of our business with Liberty due to the factory's inability to deliver according to desired production specifications (on-time delivery and quality). Between mid-2007 and mid-2008, Liberty and Nike worked closely to ensure that Liberty would be able to meet all of its obligations, including paying legally-mandated severance payments and benefits to workers, which was accomplished. According to our data, the last Nike orders placed by Liberty were completed by the end of 2007.

It is Nike's understanding, based on conversations with the former owner of Hugger, that over the course of 2008, Hugger secured additional orders from other buyers, specifically Anvil and Hanes, to fill the production capacity at Hugger left after Nike's orders were completed at the end of 2007. It is also Nike's understanding that Anvil and Hanes were the predominant buyers at the time of Hugger's closure in January 2009.

Vision Tex

As mentioned above, Nike did not have a direct business relationship with Vision Tex. One of our primary contractors in Honduras, HB Sports/New Holland (New Holland), sub-contracted with Vision Tex to produce Nike products beginning in May 2007. According to our data, the Nike products that were made at Vision Tex were blank products that were not being produced for any university license partners, except for a one-time order of approximately 800 units in 2007. Nike appreciates WRC information about hang-tags found at Vision Tex after its closure that included collegiate licensed logos. We have verified our orders, and confirm that these hang-tags were erroneously used on blank products, not on products made for collegiate license partners. We understand the confusion this has created, and we are committed to correcting the use of such hang-tags in the future.

In 2008, Nike ramped down business with HB Sports/New Holland due to decreased consumer demand. In June 2008, New Holland informed Vision Tex management that no Nike orders would be placed in Vision Tex after December 2008. This advanced notice was intended to give Vision Tex sufficient time to be able to identify other buyers or make responsible alternative arrangements. In December 2008, Nike's last orders were shipped from Vision Tex.

Haddad

Haddad Brands is a Nike licensee, which means that Haddad is an independent entity from Nike. Like Nike, Haddad is a buyer of finished product from factories; they are not themselves a contractor or a contract factory. Nike's licensees are required to source from either factories currently supplying Nike or from factories that meet minimum requirements in the New Source Approval Process (NSAP). Licensees are also required to audit factories to verify ongoing compliance with Nike's code of conduct.

Beginning in 2007, with final shipments in December 2008, Haddad was sourcing Nike product from Liberty, who sub-contracted production to Hugger. The products made by Hugger for Haddad were children's t-shirts (sold to retailers in the US). The merchandise manufactured by Hugger for Haddad through Liberty was not collegiate licensed products. Haddad erroneously, due to a reporting system error, submitted Hugger as a factory to be included on Nike's collegiate disclosure list. Haddad initially reported that production for Nike's kids business was "collegiate" - when in fact no collegiate product was manufactured at Hugger.

Haddad had also sourced Nike non-collegiate t-shirts from Vision Tex through another contractor Hawkins (also known as Tarheel) for a limited period of three weeks, from November to December 2008.

Workers' agreements

It is Nike's understanding that in the case of both Hugger and Vision Tex, there were agreements signed between the laid-off workers, their union representatives, lawyers representing the workers, and the factory owners signed in the presence of officials from the Honduran Ministry of Labor after the factory closures. In the case of the Hugger agreement, Nike understands that this agreement specified that factory assets would be turned over to workers to liquidate in order to cover severance costs. In the case of Vision Tex, Nike understands that severance costs were to be covered in part by outstanding accounts payable owed to the factory, as well as through the liquidation of other assets.

Nike has had several meetings throughout the past year with both the Central General de Trabajadores (CGT) and the Confederación Unitaria de Trabajadores de Honduras (CUTH), the trade unions representing the former Hugger and Vision Tex workers. From these meetings, Nike has learned that the mechanisms laid out in the agreements have not yielded the amounts necessary to cover the severance obligations owed to workers. According to CGT, former Hugger workers are having difficulty accessing the factory assets because the industrial park is refusing to give workers access to the factory. According to CUTH, former Vision Tex workers were supposed to receive funds that were allegedly in Vision Tex's bank accounts when the factory closed.

WRC's recommendations to Nike

Nike appreciates the recommendations put forward by WRC in its assessment published on October 8th. We have moved forward with certain of those recommendations. Specifically, we have reached out to Anvil and Hanes, which Nike believes were the primary buyers sourcing from Hugger in the year leading up to the factory's closure. Nike does not have a business relationship with Hanes. Nike does purchase blank t-shirts from Anvil's Star facility in Honduras. Anvil has previously demonstrated responsible corporate behavior in Honduras, such as paying severance and providing training to laid-off workers.

Nike has asked New Holland whether they would consider paying severance to the former Vision Tex workers. According to New Holland, they do not believe they have a legal liability to pay severance, nor do they have a financial ability to do so. Like many businesses in Honduras, New Holland has been negatively impacted by the economic decline in the United States. Nike believes it is important to maintain financial stability at New Holland so that its own workforce is not placed in jeopardy. New Holland has indicated to Nike that it may be possible to hire some of the former Vision Tex workers in the first quarter of 2010, when the factory believes it may have more stable orders.

Moving forward

Nike will continue to engage with relevant stakeholders to try to find solutions in this case. However, we are uncertain whether a solution that meets all the expectations of all stakeholders will be readily identified. We believe that it is important to learn from the case of Hugger and Vision Tex. With this in mind, we have begun to explore how we might gain greater visibility to not only the compliance performance of subcontracted facilities within our supply chain, but also to their financial performance. As noted above, we have identified where we need to improve our management of factory data and data from our licensee partners. We hope that these steps will enable us to perform better in the future.

Prior to the political instability in Honduras, Nike had spearheaded an effort to engage with other brands sourcing in Honduras to address the impacts of the economic recession on factories and workers. We hope to be able to continue this dialogue with a broader set of stakeholders when the political environment allows for this to take place. We remain committed to Honduras. We estimate that Nike production results in employment for over 10,000 workers in Honduras, and we intend to continue working with factory partners in Honduras who meet our business and corporate responsibility goals.

Conclusion

Over the course of the decade in which Nike has sought to be a leader in corporate responsibility, we have encountered numerous challenging factory issues. In the case of Hugger and Vision Tex, we are disappointed that legal, economic, and political circumstances have resulted in a negative outcome for workers to date. However, we are hopeful that efforts to remediate this case are not yet concluded. We hope that this case provides a learning opportunity, not only for Nike, but also for our university licensors, students, stakeholders, business partners, and the broader industry. We believe that there is no finish line, and this case has provided us with an important milestone on our corporate responsibility journey from which we will learn and grow.