

WOLVERINE WORLD WIDE INC /DE/

Form 10-Q

October 21, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the third twelve week accounting period ended September 11, 2010
OR**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-06024

WOLVERINE WORLD WIDE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

38-1185150

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

9341 Courtland Drive N.E., Rockford, Michigan

49351

(Address of Principal Executive Offices)

(Zip Code)

(616) 866-5500

(Registrant's Telephone Number, Including Area Code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

There were 48,831,627 shares of Common Stock, \$1 par value, outstanding as of October 15, 2010.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, which are statements relating to future events. Forward-looking statements are based on management's beliefs, assumptions, current expectations, estimates and projections about the footwear business, worldwide economics and the Company itself. Words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, predicts, projects, should, words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (Risk Factors) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk Factors include, but are not limited to:

- uncertainties relating to changes in demand for the Company's products;
- changes in consumer preferences or spending patterns;
- changes in local, domestic or international economic and market conditions;
- the impact of competition and pricing by the Company's competitors;
- the cost and availability of inventories, services, labor and equipment furnished to the Company;
- the ability of the Company to manage and forecast its growth and inventories;
- increased future pension funding requirements;
- changes in duty structures in countries of import and export;
- changes in interest rates, tax laws, duties, tariffs, quotas or applicable assessments;
- foreign currency fluctuations compared to the U.S. dollar, most notably the British pound, Canadian dollar, euro and Chinese yuan;
- the risk of doing business in developing countries and economically volatile areas;
- the cost, availability and production capacity of contract manufacturers;
- the cost and availability of raw materials, including leather and petroleum-based materials;
- changes in planned consumer demand or at-once orders;
- loss of significant customers;
- customer order cancellations;
- the exercise of future purchase options by the U.S. Department of Defense on previously-awarded contracts;
- the impact of a global recession on demand for the Company's products;
- the impact of limited credit availability on the Company's suppliers, distributors and customers;
- the success of apparel and consumer-direct business initiatives;
- changes in business strategy or development plans;
- integration of operations of newly-acquired businesses;
- relationships with international distributors and licensees;
- the ability to secure and protect trademarks, patents and other intellectual property;
- technological developments;
- the ability to attract and retain qualified personnel;
- the size and growth of footwear, apparel and accessory markets;
- service interruptions at shipping and receiving ports;
- changes in the amount or severity of inclement weather;
- changes due to the growth of Internet commerce;
- the popularity of particular designs and categories of footwear;
- the Company's ability to adapt and compete in global apparel and accessory markets;
- the ability to retain rights to brands licensed by the Company;
- the impact of the Company's restructuring plan announced in January 2009;
- the Company's ability to implement and recognize benefits from tax planning strategies;
- the Company's ability to meet at-once orders;
- adverse developments in domestic or international legislation, regulation or policy;
- changes in retail buying patterns;

consolidation in the retail sector; and
the acceptance of U.S. brands in international markets.

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Additionally, concerns regarding acts of terrorism and international conflict have created significant global economic and political uncertainties that may have material and adverse effects on consumer demand, foreign sourcing of footwear, shipping and transportation, product imports and exports and the sale of products in foreign markets.

These matters are representative of the Risk Factors that could cause a difference between an ultimate actual outcome and a forward-looking statement. Historical operating results are not necessarily indicative of the results that may be expected in the future. The Risk Factors included here are not exhaustive. Investors should review the Risk Factors identified in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2010 and any information regarding such Risk Factors included in the Company's subsequent filings with the Securities and Exchange Commission. Other Risk Factors exist, and new Risk Factors emerge from time to time, that 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. Furthermore, the Company undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Consolidated Condensed Balance Sheets****(Thousands of Dollars)****(Unaudited)**

	September 11, 2010	January 2, 2010	September 12, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 95,305	\$ 160,439	\$ 78,539
Accounts receivable, less allowances			
September 11, 2010 - \$14,057			
January 2, 2010 - \$13,946			
September 12, 2009 - \$15,414	238,524	163,755	223,453
Inventories:			
Finished products	191,552	140,124	168,781
Raw materials and work-in-process	16,982	17,941	15,202
	208,534	158,065	183,983
Deferred income taxes	10,380	12,475	12,220
Prepaid expenses and other assets	9,467	8,804	12,132
Total current assets	562,210	503,538	510,327
Property, plant and equipment:			
Gross cost	310,285	303,148	303,533
Less accumulated depreciation	238,784	229,196	227,792
	71,501	73,952	75,741
Other assets:			
Goodwill and other non-amortizable intangibles	55,070	56,198	56,646
Cash surrender value of life insurance	36,885	35,405	36,252
Deferred income taxes	35,656	35,094	24,217
Other	3,485	3,746	4,421
	131,096	130,443	121,536
Total assets	\$ 764,807	\$ 707,933	\$ 707,604

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Consolidated Condensed Balance Sheets continued
(Thousands of Dollars, Except Share and Per Share Data)
(Unaudited)

	September 11, 2010	January 2, 2010	September 12, 2009
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 67,024	\$ 42,262	\$ 42,005
Accrued salaries and wages	20,629	20,751	21,026
Income taxes	21,354	18,887	17,233
Accrued pension liabilities	2,044	2,044	2,044
Restructuring reserve	3,115	5,926	4,768
Other accrued liabilities	49,472	42,443	61,322
Current maturities of long-term debt	513	538	556
Revolving credit agreement			9,900
Total current liabilities	164,151	132,851	158,854
Long-term debt (less current maturities)	513	1,077	1,112
Deferred compensation	5,713	5,870	5,616
Accrued pension liabilities	83,753	84,134	67,548
Other non-current liabilities	2,157	1,968	1,979
Stockholders' equity			
Common Stock - par value \$1, authorized 160,000,000 shares; shares issued (including shares in treasury):			
September 11, 2010 - 63,691,840 shares			
January 2, 2010 - 62,763,924 shares			
September 12, 2009 - 62,588,558 shares	63,692	62,764	62,589
Additional paid-in capital	97,253	81,021	73,892
Retained earnings	769,389	706,439	695,100
Accumulated other comprehensive income (loss)	(44,808)	(42,806)	(33,995)
Cost of shares in treasury:			
September 11, 2010 - 14,980,365 shares			
January 2, 2010 - 13,170,471 shares			
September 12, 2009 - 13,163,115 shares	(377,006)	(325,385)	(325,091)
Total stockholders' equity	508,520	482,033	472,495
Total liabilities and stockholders' equity	\$ 764,807	\$ 707,933	\$ 707,604

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Operations
(Thousands of Dollars, Except Per Share Data)
(Unaudited)

	12 Weeks Ended		36 Weeks Ended	
	September 11, 2010	September 12, 2009	September 11, 2010	September 12, 2009
Revenue	\$ 320,396	\$ 286,764	\$ 863,492	\$ 788,526
Cost of goods sold	191,825	171,498	512,245	474,939
Restructuring and other transition costs		1,301	1,406	4,639
Gross profit	128,571	113,965	349,841	308,948
Selling, general and administrative expenses	80,670	74,015	235,930	222,158
Restructuring and other transition costs		3,787	2,828	22,826
Operating profit	47,901	36,163	111,083	63,964
Other expenses (income):				
Interest expense net	56	15	141	223
Other expense (income) net	(244)	(333)	(79)	79
	(188)	(318)	62	302
Earnings before income taxes	48,089	36,481	111,021	63,662
Income taxes	13,946	9,687	32,197	18,467
Net earnings	\$ 34,143	\$ 26,794	\$ 78,824	\$ 45,195
Net earnings per share:				
Basic	\$ 0.71	\$ 0.54	\$ 1.62	\$ 0.92
Diluted	\$ 0.70	\$ 0.54	\$ 1.59	\$ 0.91
Cash dividends per share	\$ 0.11	\$ 0.11	\$ 0.33	\$ 0.33

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
(Thousands of Dollars)
(Unaudited)

	36 Weeks Ended	
	September	September 12,
	11,	2009
	2010	2009
OPERATING ACTIVITIES		
Net earnings	\$ 78,824	\$ 45,195
Adjustments necessary to reconcile net earnings to net cash provided by operating activities:		
Depreciation	10,692	11,852
Amortization	1,177	1,159
Deferred income taxes	(562)	(822)
Stock-based compensation expense	7,747	6,356
Excess tax benefits from stock-based compensation	(907)	
Pension expense	11,275	10,731
Restructuring and other transition costs	4,234	27,465
Cash payments related to restructuring and other transition costs	(6,185)	(14,608)
Other	7,326	(11,376)
Changes in operating assets and liabilities:		
Accounts receivable	(76,107)	(46,979)
Inventories	(53,207)	19,417
Other operating assets	(1,486)	(216)
Accounts payable	25,296	(8,081)
Other operating liabilities	(455)	30,980
Net cash provided by operating activities	7,662	71,073
INVESTING ACTIVITIES		
Business acquisitions		(7,954)
Additions to property, plant and equipment	(9,365)	(7,440)
Other	(1,431)	(1,876)
Net cash used in investing activities	(10,796)	(17,270)
FINANCING ACTIVITIES		
Net repayments under revolver		(49,600)
Payments of long-term debt and capital lease obligations	(537)	(5)
Cash dividends paid	(16,115)	(16,105)
Purchase of common stock for treasury	(52,164)	(6,197)
Proceeds from shares issued under stock incentive plans	8,430	3,876
Excess tax benefits from stock-based compensation	907	
Net cash used in financing activities	(59,479)	(68,031)
Effect of foreign exchange rate changes	(2,521)	3,265

Decrease in cash and cash equivalents	(65,134)	(10,963)
Cash and cash equivalents at beginning of the period	160,439	89,502
Cash and cash equivalents at end of the period	\$ 95,305	\$ 78,539

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
September 11, 2010 and September 12, 2009
(Unaudited)

All amounts are in thousands of dollars except share and per share data, and elsewhere as noted.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Wolverine World Wide, Inc. is a leading designer, manufacturer and marketer of a broad range of quality casual shoes, performance outdoor footwear and apparel, industrial work shoes, boots and apparel, and uniform shoes and boots. The Company's global portfolio of owned and licensed brands includes: *Bate*[®], *Cat*[®] Footwear, *Chaco*[®], *Cushe*[™], *Harley-Davidson*[®] Footwear, *Hush Puppies*[®], *HyTest*[®], *Merrell*[®], *Patagonia*[®] Footwear, *Sebago*[®], *Soft Style*[®] and *Wolverine*[®]. Licensing arrangements with third parties extend the global reach of the Company's brand portfolio. The Company also operates a retail division to market its own brands as well as branded footwear and apparel from other manufacturers; a leathers division that markets *Wolverine Performance Leathers*; and a pigskin procurement operation.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete presentation of the financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included in the accompanying financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

Revenue Recognition

Revenue is recognized on the sale of products manufactured or sourced by the Company when the related goods have been shipped, legal title has passed to the customer and collectability is reasonably assured. Revenue generated through programs with licensees and distributors involving products bearing the Company's trademarks is recognized as earned according to stated contractual terms upon either the purchase or shipment of branded products by licensees and distributors.

The Company records provisions against gross revenue for estimated stock returns and cash discounts in the period when the related revenue is recorded. These estimates are based on factors that include, but are not limited to, historical stock returns, historical discounts taken and analysis of credit memorandum activity.

Cost of Goods Sold

Cost of goods sold for the Company's operations include the actual product costs, including inbound freight charges, purchasing, sourcing, inspection and receiving costs. Warehousing costs are included in selling, general and administrative expenses.

Seasonality

The Company's business is subject to seasonal influences and the Company's fiscal year has twelve weeks in each of the first three quarters and, depending on the fiscal calendar, sixteen or seventeen weeks in the fourth quarter. Both of these factors can cause significant differences in revenue, earnings and cash flows from quarter to quarter; however, the differences have followed a consistent pattern in previous years.

Reclassifications

Certain prior period amounts on the consolidated condensed financial statements have been reclassified to conform to current period presentation. These reclassifications did not affect net earnings.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements continued
September 11, 2010 and September 12, 2009
(Unaudited)

2. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	12 Weeks Ended		36 Weeks Ended	
	September 11, 2010	September 12, 2009	September 11, 2010	September 12, 2009
Numerator:				
Net earnings	\$ 34,143	\$ 26,794	\$ 78,824	\$ 45,195
Adjustment for earnings allocated to nonvested restricted common stock	(541)	(503)	(1,203)	(741)
Net earnings used in calculating basic earnings per share	33,602	26,291	77,621	44,454
Adjustment for earnings reallocated to nonvested restricted common stock	13	7	27	6
Net earnings used in calculating diluted earnings per share	\$ 33,615	\$ 26,298	\$ 77,648	\$ 44,460
Denominator:				
Weighted average shares outstanding	48,731,526	49,234,656	49,161,580	49,079,465
Adjustment for nonvested restricted common stock	(1,237,987)	(981,530)	(1,193,308)	(904,990)
Shares used in calculating basic earnings per share	47,493,539	48,253,126	47,968,272	48,174,475
Effect of dilutive stock options	&			