

WOLVERINE WORLD WIDE INC /DE/

Form 10-Q

May 03, 2011

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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 first twelve week accounting period ended March 26, 2011
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 49,632,123 shares of Common Stock, \$1 par value, outstanding as of April 29, 2011.

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which are statements relating to future, not past, events. In this context, forward-looking statements often address management's current beliefs, assumptions, expectations, estimates and projections about future business and financial performance, global political, economic and market conditions, and the Company itself. Such statements often contain words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, predicts, projects, should, will, variations of such words, and similar. Forward-looking statements, by their nature, address matters that are, to varying degrees, uncertain. Uncertainties that could cause the Company's performance to differ materially from what is expressed in forward-looking statements include, but are not limited to the following:

- changes in national, regional or global economic and market conditions;
- the impact of financial and credit markets on the Company, its suppliers and customers;
- changes in interest rates, tax laws, duties, tariffs, quotas or applicable assessments in countries of import and export;
- the impact of regulation, regulatory and legal proceedings and legal compliance risks;
- currency fluctuations;
- changes in costs of future pension funding requirements;
- the risks of doing business in developing countries, and politically or economically volatile areas;
- the ability to secure and protect owned intellectual property or use licensed intellectual property;
- changes in consumer preferences, spending patterns, buying patterns, or demand for the Company's products;
- changes in relationships with, including the loss of, significant customers;
- cancellation of orders for future delivery, or the failure of the Department of Defense to exercise future purchase options, award new contracts or the cancellation of existing contracts, by the Department of Defense or other military purchasers;
- the cost, availability and management of raw materials, inventories, services, labor and contract manufacturers;
- service interruptions at shipping and receiving ports;
- the ability to adapt to and compete in global footwear, apparel and consumer-direct markets; and
- strategic actions, including new initiatives and ventures, acquisitions and dispositions, and our success in integrating acquired businesses and new initiatives and ventures;

and many other matters of national, regional and global scale, including those of a political, environmental, economic, business and competitive nature. These uncertainties could cause a material difference between an actual outcome and a forward-looking statement. These uncertainties included here are not exhaustive and are described in more detail in Part I, Item 1A, Risk Factors of the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2011 and any information regarding such Risk Factors included in the Company's subsequent filings with the Securities and Exchange Commission. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company does not undertake an 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, Except Share Data)**

	March 26, 2011 (Unaudited)	January 1, 2011 (Audited)	March 27, 2010 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 91,551	\$ 150,400	\$ 84,944
Accounts receivable, less allowances			
March 26, 2011	\$12,454		
January 1, 2011	\$11,413		
March 27, 2010	\$15,834		
	251,929	196,457	207,735
Inventories:			
Finished products	226,947	188,647	154,083
Raw materials and work-in-process	23,041	20,008	17,750
	249,988	208,655	171,833
Deferred income taxes	13,855	13,225	11,361
Prepaid expenses and other current assets	13,294	11,397	10,564
Total current assets	620,617	580,134	486,437
Property, plant and equipment:			
Gross cost	287,776	281,564	304,277
Accumulated depreciation	(212,332)	(207,167)	(232,093)
	75,444	74,397	72,184
Other assets:			
Goodwill	39,881	39,014	38,253
Other non-amortizable intangibles	16,535	16,464	16,034
Cash surrender value of life insurance	36,804	36,042	35,735
Deferred income taxes	37,402	37,602	34,937
Other	2,589	2,922	3,232
	133,211	132,044	128,191
Total assets	\$ 829,272	\$ 786,575	\$ 686,812

See accompanying notes to consolidated 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)

	March 26, 2011 (Unaudited)	January 1, 2011 (Audited)	March 27, 2010 (Unaudited)
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 60,353	\$ 64,080	\$ 37,539
Accrued salaries and wages	12,264	26,848	11,778
Income taxes	11,672	2,746	6,938
Taxes, other than income taxes	10,353	6,586	9,018
Restructuring reserve	1,046	1,314	3,561
Other accrued liabilities	42,322	37,046	39,505
Accrued pension liabilities	2,018	2,018	2,044
Current maturities of long-term debt	536	517	496
Revolving credit agreement	30,000		
 Total current liabilities	 170,564	 141,155	 110,879
 Long-term debt (less current maturities)		 517	 496
Deferred compensation	4,374	4,410	6,154
Accrued pension liabilities	55,435	83,685	77,008
Other non-current liabilities	13,192	12,911	10,423
 Stockholders equity			
Common Stock par value \$1, authorized 160,000,000 shares; shares issued (including shares in treasury):			
March 26, 2011 64,723,233 shares			
January 1, 2011 63,976,387 shares			
March 27, 2010 63,547,715 shares	64,723	63,976	63,548
Additional paid-in capital	119,868	108,286	89,136
Retained earnings	819,785	789,684	728,565
Accumulated other comprehensive income (loss)	(35,290)	(41,123)	(48,574)
Cost of shares in treasury:			
March 26, 2011 15,155,905 shares			
January 1, 2011 14,976,835 shares			
March 27, 2010 14,084,787 shares	(383,379)	(376,926)	(350,823)
 Total stockholders equity	 585,707	 543,897	 481,852
 Total liabilities and stockholders equity	 \$ 829,272	 \$ 786,575	 \$ 686,812

See accompanying notes to consolidated 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	
	March 26, 2011	March 27, 2010
Revenue	\$ 330,872	\$ 284,897
Cost of goods sold	193,075	166,327
Restructuring and other transition costs		981
Gross profit	137,797	117,589
Selling, general and administrative expenses	88,342	78,540
Restructuring and other transition costs		517
Operating profit	49,455	38,532
Other expenses (income):		
Interest expense net	226	89
Other income net	(580)	(230)
	(354)	(141)
Earnings before income taxes	49,809	38,673
Income taxes	13,946	11,214
Net earnings	\$ 35,863	\$ 27,459
Net earnings per share (see Note 2):		
Basic	\$ 0.74	\$ 0.55
Diluted	\$ 0.72	\$ 0.54
Cash dividends declared per share	\$ 0.12	\$ 0.11
See accompanying notes to consolidated financial statements.		

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

	12 Weeks Ended	
	March 26, 2011	March 27, 2010
OPERATING ACTIVITIES		
Net earnings	\$ 35,863	\$ 27,459
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation	3,559	3,456
Amortization	234	405
Deferred income taxes	132	157
Stock-based compensation expense	3,281	2,570
Excess tax benefits from stock-based compensation	(1,316)	(470)
Pension expense	4,039	3,758
Pension contribution	(31,800)	(10,400)
Restructuring and other transition costs		1,498
Cash payments related to restructuring and other transition costs	(275)	(3,813)
Other	(1,567)	3,697
Changes in operating assets and liabilities:		
Accounts receivable	(53,300)	(45,608)
Inventories	(38,757)	(15,155)
Other operating assets	(1,494)	(4,738)
Accounts payable	(4,414)	(4,585)
Income taxes	8,926	(7,696)
Other operating liabilities	(5,866)	5,935
Net cash used in operating activities	(82,755)	(43,530)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(4,345)	(2,168)
Other	(640)	(509)
Net cash used in investing activities	(4,985)	(2,677)
FINANCING ACTIVITIES		
Net borrowings under revolver	30,000	
Payments of long-term debt and capital lease obligations	(530)	(537)
Cash dividends paid	(5,331)	(5,416)
Purchase of common stock for treasury	(5,063)	(24,600)
Surrender of common stock for income tax purposes	(1,555)	(838)
Proceeds from shares issued under stock incentive plans	7,415	5,417
Excess tax benefits from stock-based compensation	1,316	470
Net cash provided by (used in) financing activities	26,252	(25,504)
Effect of foreign exchange rate changes	2,639	(3,784)

Decrease in cash and cash equivalents	(58,849)	(75,495)
Cash and cash equivalents at beginning of the period	150,400	160,439
Cash and cash equivalents at end of the period	\$ 91,551	\$ 84,944

See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
March 26, 2011 and March 27, 2010
(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 portfolio of owned and licensed brands includes: *Bates*[®], *Cat*[®] Footwear, *Chaco*[®], *Cushe*[®], *Harley-Davidson*[®] Footwear, *Hush Puppies*[®], *HyTest*[®], *Merrell*[®], *Patagonia*[®] Footwear, *Sebago*[®], *Soft Style*[®] and *Wolverine*[®]. Licensing and distribution arrangements with third parties extend the global reach of the Company's brand portfolio. The Company also operates a consumer-direct division to market its own brands as well as branded footwear and apparel from other manufacturers and a leathers division that markets *Wolverine Performance Leathers* .

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 1, 2011.

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 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
March 26, 2011 and March 27, 2010
(Unaudited)

2. EARNINGS PER SHARE

The Company calculates earnings per share in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 260, *Earnings Per Share* (ASC 260). ASC 260 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method. Under the guidance in ASC 260, the Company's unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and must be included in the computation of earnings per share pursuant to the two-class method.

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

	12 Weeks Ended	
	March 26, 2011	March 27, 2010
Numerator:		
Net earnings	\$ 35,863	\$ 27,459
Adjustment for earnings allocated to nonvested restricted common stock	(588)	(556)
Net earnings used in calculating basic earnings per share	35,275	26,903
Adjustment for earnings reallocated to nonvested restricted common stock	18	6
Net earnings used in calculating diluted earnings per share	\$ 35,293	\$ 26,909
Denominator:		
Weighted average shares outstanding	49,292,383	49,593,214
Adjustment for nonvested restricted common stock	(1,379,644)	(1,092,849)
Shares used in calculating basic earnings per share	47,912,739	48,500,365
Effect of dilutive stock options	1,264,737	1,029,733
Shares used in calculating diluted earnings per share	49,177,476	49,530,098
Net earnings per share:		
Basic	\$ 0.74	\$ 0.55
Diluted	\$ 0.72	\$ 0.54

Options to purchase 205,313 shares of common stock at March 26, 2011 and 875,638 shares at March 27, 2010 have not been included in the denominator for the computation of diluted earnings per share because the related exercise prices were greater than the average market price for the quarter, and they were, therefore, anti-dilutive.

3. GOODWILL AND OTHER NON-AMORTIZABLE INTANGIBLES

The changes in the carrying amount of goodwill and other non-amortizable intangibles are as follows:

	Goodwill	Trademarks	Total
Balance at March 27, 2010	\$ 38,253	\$ 16,034	\$ 54,287
Intangibles acquired		360	360

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Foreign currency translation effects	761	70	831
Balance at January 1, 2011	39,014	16,464	55,478
Intangibles disposed		(11)	(11)
Foreign currency translation effects	867	82	949
Balance at March 26, 2011	\$ 39,881	16,535	56,416

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
March 26, 2011 and March 27, 2010
(Unaudited)

4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represents net earnings and any revenue, expenses, gains and losses that, under accounting principles generally accepted in the United States, are excluded from net earnings and recognized directly as a component of stockholders' equity.

The ending accumulated other comprehensive income (loss) is as follows:

	March 26, 2011	January 1, 2011	March 27, 2010
Foreign currency translation adjustments	\$ 18,687	\$ 11,548	\$ 6,574
Fair value of foreign exchange contracts, net of taxes	(3,121)	(1,815)	(1,411)
Pension adjustments, net of taxes	(50,856)	(50,856)	(53,737)
Accumulated other comprehensive income (loss)	\$ (35,290)	\$ (41,123)	\$ (48,574)

The reconciliation from net earnings to comprehensive income is as follows:

	12 Weeks Ended	
	March 26, 2011	March 27, 2010
Net earnings	\$ 35,863	\$ 27,459
Other comprehensive income (loss):		
Foreign currency translation adjustments	7,139	(7,903)
Change in fair value of foreign exchange contracts, net of taxes	(1,306)	2,135
Comprehensive income	\$ 41,696	\$ 21,691

5. BUSINESS SEGMENTS

The Company has one reportable segment that is engaged in designing, manufacturing, sourcing, marketing, licensing and distributing to the retail sector branded footwear, apparel and accessories. Revenue earned from the operations of this segment is derived from the sale of branded footwear, apparel and accessories to third-party customers and royalty income from the licensing of the Company's trademarks and brand names to third-party licensees and distributors. The operating segments aggregated into the branded footwear, apparel and licensing reportable segment all manufacture, source, market and distribute products in a similar manner.

The other business units in the following tables consist of the Company's retail, leather and pigskin procurement operations. Substantially all of the assets of Wolverine Procurement, Inc. were sold to a third-party buyer on December 29, 2010. These other operations do not collectively form a reportable segment because their respective operations are dissimilar and they do not meet the applicable quantitative requirements. At March 26, 2011, the Company owned and operated 91 retail stores in the United States, Canada and the United Kingdom and operated 41 consumer-direct Internet sites. The other business units distribute products through retail and wholesale channels.

The Company measures segment profits as earnings before income taxes. The accounting policies used to determine profitability and total assets of the branded footwear, apparel and licensing reportable segment and other business units are the same as disclosed in Note 1.

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