

WOLVERINE WORLD WIDE INC /DE/

Form 10-Q

July 26, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the second twelve week accounting period ended June 16, 2012

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
(State or Other Jurisdiction of
Incorporation or Organization)

38-1185150
(IRS Employer
Identification No.)

9341 Courtland Drive N.E.,

Rockford, Michigan
(Address of Principal Executive Offices)

49351
(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 48,859,590 shares of Common Stock, \$1 par value, outstanding as of July 20, 2012.

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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 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;

currency restrictions;

changes in costs of future pension funding requirements and pension expenses;

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, price sensitivity or demand for the Company's products;

changes in relationships with, including the loss of, significant customers;

the cancellation of orders for future delivery;

the failure of the Department of Defense to exercise future purchase options or award new contracts, or the cancellation or modification of existing contracts by the Department of Defense or other military purchasers;

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matters relating to the pending acquisition of the Performance + Lifestyle Group (PLG) business of Collective Brands, Inc., including the possibility that the PLG acquisition does not close, the Company's ability to realize the benefits of the PLG acquisition or to do so on a timely basis, the Company's ability to combine its business with PLG successfully or in a timely and cost-efficient manner, failure to obtain any required financing or to do so on favorable terms, and/or the degree of business disruption relating to the PLG acquisition;

the cost, availability and management of raw materials, inventories, services and labor for owned and contract manufacturers;

service interruptions at shipping and receiving ports;

the inability for any reason to effectively compete in global footwear, apparel and consumer-direct markets;

strategic actions, including new initiatives and ventures, acquisitions and dispositions, and our success in integrating acquired businesses and implementing 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. The 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 December 31, 2011 and any information regarding such Risk Factors included in the Company's subsequent filings with the Securities and Exchange Commission, including Item 1A of this Form 10-Q. 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 and Per Share Data)****(Unaudited)**

	June 16, 2012	December 31, 2011	June 18, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 156,627	\$ 140,012	\$ 118,478
Accounts receivable, less allowances:			
June 16, 2012 \$13,245			
December 31, 2011 \$12,688			
June 18, 2011 \$10,237	235,170	219,963	226,739
Inventories:			
Finished products	216,808	208,164	224,652
Raw materials and work-in-process	27,104	23,574	22,582
	243,912	231,738	247,234
Deferred income taxes	10,452	9,801	13,264
Prepaid expenses and other current assets	29,163	32,982	15,356
Total current assets	675,324	634,496	621,071
Property, plant and equipment:			
Gross cost	297,203	293,679	292,559
Accumulated depreciation	(221,394)	(215,190)	(215,820)
	75,809	78,489	76,739
Other assets:			
Goodwill	39,064	38,894	39,888
Other non-amortizable intangibles	17,558	17,375	16,646
Cash surrender value of life insurance	39,383	38,203	37,718
Deferred income taxes	41,989	42,349	38,620
Other	3,194	1,846	2,815
	141,188	138,667	135,687
Total assets	\$ 892,321	\$ 851,652	\$ 833,497

See accompanying notes to consolidated condensed financial statements.

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

	June 16, 2012	December 31, 2011	June 18, 2011
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 60,797	\$ 57,099	\$ 72,599
Accrued salaries and wages	15,333	22,635	16,342
Income taxes	4,366	2,822	5,454
Taxes, other than income taxes	7,721	8,093	8,782
Other accrued liabilities	42,108	44,363	36,735
Accrued pension liabilities	2,151	2,151	2,018
Current maturities of long-term debt		515	539
Borrowings under revolving credit agreement	28,000	11,000	20,000
Total current liabilities	160,476	148,678	162,469
Deferred compensation	3,856	4,113	4,317
Accrued pension liabilities	89,295	103,825	59,155
Other liabilities	10,083	16,386	13,293
Stockholders equity			
Wolverine World Wide, Inc. stockholders equity:			
Common Stock par value \$1, authorized 160,000,000 shares; shares issued (including shares in treasury):			
June 16, 2012 65,820,398 shares			
December 31, 2011 65,019,406 shares			
June 18, 2011 64,860,785 shares	65,820	65,019	64,861
Additional paid-in capital	157,043	138,585	126,682
Retained earnings	929,907	889,765	837,920
Accumulated other comprehensive income (loss)	(73,814)	(71,029)	(33,763)
Cost of shares in treasury:			
June 16, 2012 17,042,733 shares			
December 31, 2011 16,848,374 shares			
June 18, 2011 15,632,031 shares	(451,386)	(443,690)	(401,437)
Total Wolverine World Wide, Inc. stockholders equity	627,570	578,650	594,263
Non-controlling interest	1,041		
Total stockholders equity	628,611	578,650	594,263
Total liabilities and stockholders equity	\$ 892,321	\$ 851,652	\$ 833,497

See accompanying notes to consolidated condensed financial statements.

Table of Contents**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Consolidated Condensed Statements of Operations and Comprehensive Income****(Thousands of Dollars, Except Per Share Data)****(Unaudited)**

	12 Weeks Ended		24 Weeks Ended	
	June 16, 2012	June 18, 2011	June 16, 2012	June 18, 2011
Revenue	\$ 312,720	\$ 310,139	\$ 635,526	\$ 641,012
Cost of goods sold	194,650	188,022	385,264	381,096
Gross profit	118,070	122,117	250,262	259,916
Selling, general and administrative expenses	95,221	88,751	190,451	177,080
Operating profit	22,849	33,366	59,811	82,836
Other expenses:				
Interest expense net	329	129	748	354
Other expense net	668	973	1,614	393
	997	1,102	2,362	747
Earnings before income taxes	21,852	32,264	57,449	82,089
Income taxes	1,540	8,301	5,955	22,246
Net earnings	20,312	23,963	51,494	59,843
Net loss attributable to non-controlling interests	(184)		(184)	
Net earnings attributable to Wolverine World Wide, Inc.	\$ 20,496	\$ 23,963	\$ 51,678	\$ 59,843
Net earnings per share (see Note 2):				
Basic	\$ 0.43	\$ 0.49	\$ 1.08	\$ 1.23
Diluted	\$ 0.42	\$ 0.48	\$ 1.05	\$ 1.20
Comprehensive income	\$ 17,678	\$ 25,489	\$ 48,709	\$ 67,203
Comprehensive income attributable to non-controlling interest	184		184	
Comprehensive income attributable to Wolverine World Wide, Inc.	\$ 17,862	\$ 25,849	\$ 48,893	\$ 67,203
Cash dividends declared per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24

See accompanying notes to consolidated condensed financial statements.

Table of Contents**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Consolidated Condensed Statements of Cash Flow**

(Thousands of Dollars)

(Unaudited)

	24 Weeks Ended	
	June 16, 2012	June 18, 2011
OPERATING ACTIVITIES		
Net earnings	\$ 51,494	\$ 59,843
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	7,379	7,082
Amortization	240	473
Deferred income taxes (credit)	421	(1,093)
Stock-based compensation expense	7,858	7,377
Excess tax benefits from stock-based compensation	(3,698)	(1,770)
Pension contribution	(26,657)	(31,800)
Pension expense	12,948	8,078
Other	(2,094)	(1,230)
Changes in operating assets and liabilities:		
Accounts receivable	(15,657)	(28,369)
Inventories	(13,096)	(37,851)
Other operating assets	1,718	(1,707)
Accounts payable	3,819	7,671
Income taxes payable	1,544	2,708
Other operating liabilities	(10,686)	(9,131)
Net cash provided by (used in) operating activities	15,533	(19,719)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(4,678)	(9,182)
Investment in joint venture	(1,604)	
Other	(1,318)	(1,410)
Net cash used in investing activities	(7,600)	(10,592)
FINANCING ACTIVITIES		
Net borrowings under revolver	17,000	20,000
Payments of long-term debt	(526)	(530)
Cash dividends paid	(11,800)	(11,194)
Purchase of common stock for treasury	(2,399)	(23,146)
Surrender of common stock for treasury	(5,599)	(1,675)
Proceeds from shares issued under stock incentive plans	7,512	9,771
Excess tax benefits from stock-based compensation	3,698	1,770
Contributions from non-controlling interests	1,225	
Net cash provided by (used in) financing activities	9,111	(5,004)
Effect of foreign exchange rate changes	(429)	3,393
Increase (decrease) in cash and cash equivalents	16,615	(31,922)
Cash and cash equivalents at beginning of the period	140,012	150,400

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Cash and cash equivalents at end of the period	\$ 156,627	\$ 118,478
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See accompanying notes to consolidated condensed financial statements.

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WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

June 16, 2012 and June 18, 2011

(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. (the Company) is a leading designer, manufacturer and marketer of a broad range of quality casual footwear and apparel; 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 both its own brands and 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 (U.S. GAAP) 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 U.S. GAAP 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 December 31, 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 for estimated sales returns and allowances at the time of sale based on historical rates of returns and allowances and specific identification of outstanding returns not yet received from customers. However, estimates of actual returns and allowances in any future period are inherently uncertain and actual returns and allowances may differ from these estimates. If actual or expected future returns and allowances were significantly greater or lower than established reserves, a reduction or increase to net revenues would be recorded in the period this determination was made.

Cost of Goods Sold

Cost of goods sold includes 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.

Table of Contents**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements****June 16, 2012 and June 18, 2011****(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 non-forfeitable 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		24 weeks Ended	
	June 16, 2012	June 18, 2011	June 16, 2012	June 18, 2011
Numerator:				
Net earnings attributable to Wolverine World Wide, Inc.	\$ 20,496	\$ 23,963	\$ 51,678	\$ 59,843
Adjustment for earnings allocated to non-vested restricted common stock	(344)	(403)	(918)	(992)
Net earnings used in calculating basic earnings per share	20,152	23,560	50,760	58,851
Adjustment for earnings reallocated from non-vested restricted common stock	12	12	36	31
Net earnings used in calculating diluted earnings per share	\$ 20,164	\$ 23,572	\$ 50,796	\$ 58,882
Denominator:				
Weighted average shares outstanding	48,694,332	49,439,698	48,564,198	49,366,041
Adjustment for non-vested restricted common stock	(1,396,931)	(1,490,880)	(1,386,317)	(1,435,262)
Shares used in calculating basic earnings per share	47,297,401	47,948,818	47,177,881	47,930,779
Effect of dilutive stock options	1,123,863	1,342,848	1,123,286	1,311,765
Shares used in calculating diluted earnings per share	48,421,264	49,291,666	48,301,167	49,242,544
Net earnings per share:				
Basic	\$ 0.43	\$ 0.49	\$ 1.08	\$ 1.23
Diluted	\$ 0.42	\$ 0.48	\$ 1.05	\$ 1.20

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For the 12 and 24 weeks ended June 16, 2012, share-based awards relating to 587,347 and 541,729 shares of common stock outstanding, respectively, have not been included in the denominator for the computation of diluted earnings per share because the related exercise prices of these shares were greater than the average market price for the periods then-ended, and they were, therefore, anti-dilutive. For the 12 and 24 weeks ended June 18, 2011, share-based awards relating to 379,231 and 289,369 shares of common stock outstanding, respectively, have not been included in the denominator for the computation of diluted earnings per share because the related exercise prices of these shares were greater than the average market price for the periods then-ended, and they were, therefore, anti-dilutive.

Table of Contents**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements****June 16, 2012 and June 18, 2011****(Unaudited)****3. GOODWILL AND OTHER NON-AMORTIZABLE INTANGIBLES**

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

	Goodwill	Other Non- Amortizable Intangibles
Balance at June 18, 2011	\$ 39,888	\$ 16,646
Intangibles acquired		969
Foreign currency translation effects	(994)	(240)
Balance at December 31, 2011	38,894	17,375
Intangibles acquired		183
Foreign currency translation effects	170	
Balance at June 16, 2012	\$ 39,064	\$ 17,558

4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represents net earnings and any revenue, expenses, gains and losses that, under U.S. GAAP, are excluded from net earnings and recognized directly as a component of stockholders' equity.

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

	Foreign Currency	Foreign Exchange Contracts	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2011	\$ 11,548	\$ (1,815)	\$ (50,856)	\$ (41,123)
Current-period other comprehensive income (loss)	7,139	(1,306)		5,833
Balance at March 26, 2011	18,687	(3,121)	(50,856)	(35,290)
Current-period other comprehensive income (loss)	159	1,368		1,527
Balance at June 18, 2011	18,846	(1,753)	(50,856)	(33,763)
Current-period other comprehensive income (loss)	(18,587)	5,047	(23,726)	(37,266)
Balance at December 31, 2011	259	3,294	(74,582)	(71,029)