

WOLVERINE WORLD WIDE INC /DE/
Form 10-Q
May 04, 2006

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 25, 2006

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, 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 59,807,797 shares of Common Stock, \$1 par value, outstanding as of April 28, 2006, of which 4,050,498 shares are held as Treasury Stock.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the footwear business, worldwide economics and the Company itself including, without limitation, statements regarding timing or acceptance of new products, anticipated sell-throughs, future progress toward achieving the Company's strategic growth plan, estimated tax rate, the use of excess cash flows, future revenues, earnings and marketing, statements in Part I, Item 2 regarding the overview, the Company's financial condition, liquidity and capital resources and statements in Part I, Item 3 regarding market risk. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "should," "will," variations of such 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; the cost and availability of inventories, services, labor and equipment furnished to the Company; the cost and availability 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; customer order cancellations; the impact of competition and pricing by the Company's competitors; changes in government and regulatory policies; foreign currency fluctuation in valuations compared to the U.S. dollar; changes in monetary controls and valuations of the Chinese yuan renminbi and the relative value to the U.S. dollar; changes in duty structures in countries of import and export; provisional anti-dumping measures in Europe that have been implemented by the European Commission with respect to leather footwear imported into the European Union from China and Vietnam at additional duty rates progressing to 19.4% and 16.8%, respectively, by September of 2006 for certain leather footwear and the result of final measures being considered by the European Commission; anti-dumping measures being considered with respect to safety footwear imported from China and India; changes in interest rates, tax laws, duties, tariffs, quotas or applicable assessments; technological developments; changes in local, domestic or international economic and market conditions; the size and growth of footwear 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; popularity of particular designs and categories of footwear; the ability of the Company to manage and forecast its growth and inventories; the ability to secure and protect trademarks, patents and other intellectual property; integration of operations of newly acquired businesses; changes in business strategy or development plans; the Company's ability to adapt and compete in global apparel and accessory markets; customer acceptance of the Patagonia® Footwear products to be introduced in 2006; the ability to attract and retain qualified personnel; the ability to retain rights to brands licensed by the Company; loss of significant customers; relationships with international distributors and licensees; the Company's ability to meet at-once orders; the exercise of future purchase options by the U.S. Department of Defense on previously awarded contracts; the risk of doing business in developing countries and economically volatile areas; retail buying patterns; consolidation in the retail sector; and the acceptability of U.S. brands in international markets. Additionally, concerns regarding acts of terrorism, the war in Iraq and subsequent events 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; additional Risk Factors are identified in the Company's 10-K filed March 15, 2006. 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. 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.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements
WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheets
(Thousands of dollars)

	March 25, 2006 (Unaudited)	December 31, 2005 (Audited)	March 26, 2005 (Unaudited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 46,217	\$ 85,258	\$ 44,043
Accounts receivable, less allowances			
March 25, 2006 - \$9,919			
December 31, 2005 - \$8,729			
March 26, 2005 - \$8,790	189,034	157,119	181,746
Inventories:			
Finished products	157,472	140,729	171,338
Raw materials and work in process	21,913	20,618	22,785
	179,385	161,347	194,123
Other current assets	19,058	17,024	22,190
TOTAL CURRENT ASSETS	433,694	420,748	442,102
PROPERTY, PLANT & EQUIPMENT			
Gross cost	267,104	264,631	255,723
Less accumulated depreciation	175,690	171,429	161,634
	91,414	93,202	94,089
OTHER ASSETS			
Goodwill and other non-amortizable intangibles	44,180	43,971	43,701
Other	69,700	68,659	69,907
	113,880	112,630	113,608
TOTAL ASSETS	\$ 638,988	\$ 626,580	\$ 649,799

See notes to consolidated condensed financial statements

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**Consolidated Condensed Balance Sheets - Continued**

(Thousands of dollars, except share data)

	March 25, 2006 (Unaudited)	December 31, 2005 (Audited)	March 26, 2005 (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable	\$ -	\$ -	\$ 1,000
Accounts payable	50,898	41,107	47,796
Accrued salaries and wages	9,787	17,510	8,253
Other accrued liabilities	44,614	34,448	46,305
Current maturities of long-term debt	10,730	10,972	10,735
TOTAL CURRENT LIABILITIES	116,029	104,037	114,089
Long-term debt (less current maturities)	21,472	21,439	36,848
Other non-current liabilities	38,458	38,783	36,555
Minority interest	-	-	567
STOCKHOLDERS' EQUITY			
Common stock - par value \$1, authorized 160,000,000 shares; shares issued (including shares in treasury):			
March 25, 2006 - 59,647,469 shares			
December 31, 2005 - 59,211,814 shares			
March 26, 2005 - 58,345,965 shares	59,647	59,212	58,346
Additional paid-in capital	13,884	13,203	-
Retained earnings	468,803	452,672	405,131
Accumulated other comprehensive income	8,025	9,398	16,567
Unearned compensation	-	(5,873)	(8,026)
Cost of shares in treasury:			
March 25, 2006 - 4,048,115 shares			
December 31, 2005 - 3,082,548 shares			
March 26, 2005 - 488,493 shares	(87,330)	(66,291)	(10,278)
TOTAL STOCKHOLDERS' EQUITY	463,029	462,321	461,740
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 638,988	\$ 626,580	\$ 649,799

() - Denotes deduction

See notes to consolidated condensed financial statements

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**Consolidated Condensed Statements of Operations**

(Thousands of dollars, except share data)

(Unaudited)

	12 Weeks Ended	
	March 25, 2006	March 26, 2005
Revenue	\$ 262,839	\$ 245,175
Cost of products sold	156,964	148,769
GROSS MARGIN	105,875	96,406
Selling and administrative expenses	76,247	72,154
OPERATING INCOME	29,628	24,252
Other expenses (income):		
Interest expense	650	833
Interest income	(541)	(314)
Other - net	134	(133)
	243	386
EARNINGS BEFORE INCOME TAXES	29,385	23,866
Income taxes	9,756	7,733
NET EARNINGS	\$ 19,629	\$ 16,133
Net earnings per share:		
Basic	\$.36	\$.28
Diluted	\$.34	\$.27
Cash dividends declared per share	\$.075	\$.065
Shares used for net earnings per share computation:		
Basic	55,138,433	56,860,475
Diluted	57,146,458	59,818,294

See notes to consolidated condensed financial statements

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**Consolidated Condensed Statement of Stockholders' Equity**

(Thousands of dollars, except share data)

(Unaudited)

	12 Weeks Ended
	March 25, 2006
COMMON STOCK	
Balance at beginning of the year	\$ 59,212
Common stock issued under stock incentive plans	435
Balance at end of the quarter	<u>\$ 59,647</u>
ADDITIONAL PAID-IN CAPITAL	
Balance at beginning of the year	\$ 13,203
Stock-based compensation expense	1,654
Reversal of unearned compensation upon adoption of SFAS No. 123(R)	(5,873)
Amounts associated with common stock issued under stock incentive plans	4,848
Net change in notes receivable	52
Balance at end of the quarter	<u>\$ 13,884</u>
RETAINED EARNINGS	
Balance at beginning of the year	\$ 452,672
Net earnings	19,629
Cash dividends	(3,498)
Balance at end of the quarter	<u>\$ 468,803</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME	
Balance at beginning of the year	\$ 9,398
Foreign currency translation adjustments	(1,031)
Change in fair value of foreign currency cash flow hedges, net of taxes	(342)
Balance at end of the quarter	<u>\$ 8,025</u>
UNEARNED COMPENSATION	
Balance at beginning of the year	\$ (5,873)
Reversal of unearned compensation upon adoption of SFAS No. 123(R)	5,873

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Balance at end of the quarter	\$	-
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COST OF SHARES IN TREASURY		
Balance at beginning of the year	\$	(66,291)
Repurchase of common stock for treasury (967,920 shares)		(21,090)
Issuance of treasury shares (2,353 shares)		51
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Balance at end of the quarter	\$	(87,330)
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TOTAL STOCKHOLDERS' EQUITY AT END OF THE QUARTER	\$	463,029
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See notes to consolidated condensed financial statements

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

	12 Weeks Ended	
	March 25, 2006	March 26, 2005
OPERATING ACTIVITIES		
Net earnings	\$ 19,629	\$ 16,133
Adjustments necessary to reconcile net earnings to net cash used in operating activities:		
Depreciation	4,525	4,344
Amortization	148	98
Deferred income taxes	1,148	568
Stock-based compensation expense	1,654	872
Excess tax benefits from stock-based compensation	(1,424)	-
Pension	(751)	457
Other	(1,492)	1,081
Changes in operating assets and liabilities:		
Accounts receivable	(32,365)	(32,384)
Inventories	(17,907)	(10,973)
Other assets	(2,383)	3,034
Accounts payable and other liabilities	12,202	1,527
	<u>(17,016)</u>	<u>(15,243)</u>
Net cash used in operating activities	(17,016)	(15,243)
INVESTING ACTIVITIES		
Business acquisitions	-	(2,146)
Additions to property, plant and equipment	(2,742)	(3,784)
Other	(34)	124
	<u>(2,776)</u>	<u>(5,806)</u>
Net cash used in investing activities	(2,776)	(5,806)
FINANCING ACTIVITIES		
Proceeds from long-term debt	13,812	12,623
Payments of long-term debt	(14,021)	(8,040)
Cash dividends	(3,635)	(3,709)
Purchase of common stock for treasury	(21,090)	(8,655)
Proceeds from shares issued under stock incentive plans	3,704	1,664
Excess tax benefits from stock-based compensation	1,424	-
	<u>1,424</u>	<u>-</u>

	Net cash used in financing activities	(19,806)	(6,117)
	Effect of foreign exchange rate changes	557	(963)
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	DECREASE IN CASH AND CASH EQUIVALENTS	(39,041)	(28,129)
	Cash and cash equivalents at beginning of the period	85,258	72,172
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	CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 46,217	\$ 44,043
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() - Denotes reduction in cash and cash equivalents
 See notes to consolidated condensed financial statements

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements March 25, 2006 and March 26, 2005

1. Summary of Significant Accounting Policies

NATURE OF OPERATIONS

Wolverine World Wide, Inc. (NYSE: WWW) is a leading designer, manufacturer and marketer of a broad line of quality casual shoes, performance outdoor footwear, work shoes and boots, uniform shoes and boots, constructed slippers and moccasins. The Company's global portfolio of owned and licensed brands includes: Bates®, CAT® Footwear, Harley-Davidson® Footwear, Hush Puppies®, HYTEST®, Merrell®, Patagonia® Footwear, Sebago®, Stanley® Footgear and Wolverine®. Apparel and licensing programs are utilized to extend the Company's owned brands into product categories beyond footwear. The Company also operates a retail division to showcase its brands and branded footwear from other manufacturers, a tannery that produces 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 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 December 31, 2005.

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 collectibility 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 PRODUCTS SOLD

Cost of products 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 and administrative expenses.

SEASONALITY

The Company's business is subject to seasonal influences and has twelve weeks in each of the first three quarters and sixteen or seventeen weeks in the fourth quarter. Both 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.

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**Notes to Consolidated Condensed Financial Statements - continued**
March 25, 2006 and March 26, 2005**2. Earnings Per Share**

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

	12 Weeks Ended	
	March 25, 2006	March 26, 2005
Weighted average shares outstanding	55,996,320	57,992,184
Adjustment for nonvested restricted common stock	(857,887)	(1,131,709)
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Denominator for basic earnings per share	55,138,433	56,860,475
Effect of dilutive stock options	1,557,866	2,135,284
Adjustment for nonvested restricted common stock - treasury method	450,159	822,535
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Denominator for diluted earnings per share	57,146,458	59,818,294
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Options to purchase 886,221 shares of common stock at March 25, 2006 and 314,671 shares at March 26, 2005 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 period and, therefore, they were anti-dilutive.

3. Goodwill and Other Non-Amortizable Intangibles

The changes in the net carrying amounts of goodwill and trademarks are as follows (thousands of dollars):

	Goodwill	Trademarks	Total
Balance at March 26, 2005	\$ 35,589	\$ 8,112	\$ 43,701
Intangibles acquired	1,743	235	1,978
Purchase accounting adjustments	226	-	226
Foreign currency translation effects	(1,934)	-	(1,934)
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Balance at December 31, 2005	35,624	8,347	43,971
Foreign currency translation effects	209	-	209
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Balance at March 25, 2006	\$ 35,833	\$ 8,347	\$ 44,180
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4. Comprehensive Income

Comprehensive income 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 is as follows (thousands of dollars):

	March 25, 2006	December 31, 2005	March 26, 2005
Foreign currency translation adjustments	\$ 11,212	\$ 12,243	\$ 20,046
Foreign currency cash flow hedge adjustments, net of taxes	266	608	(615)
Minimum pension liability adjustments, net of taxes	(3,453)	(3,453)	(2,864)
Accumulated other comprehensive income	\$ 8,025	\$ 9,398	\$ 16,567

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**Notes to Consolidated Condensed Financial Statements - continued**
March 25, 2006 and March 26, 2005

The reconciliation from net earnings to comprehensive income is as follows (thousands of dollars):

	12 Weeks Ended	
	March 25, 2006	March 26, 2005
Net earnings	\$ 19,629	\$ 16,133
Other comprehensive income (loss):		
Foreign currency translation adjustments	(1,031)	(3,741)
Change in fair value of foreign currency cash flow hedges, net of taxes	(342)	862
Comprehensive income	\$ 18,256	\$ 13,254

5. Business Segments

The Company has one reportable segment that is engaged in manufacturing, sourcing, marketing, licensing and distributing branded footwear and licensed apparel and accessories to the retail sector, including casual shoes, dress shoes, performance outdoor footwear, boots, uniform shoes, work shoes, slippers, moccasins and apparel and accessories. Revenue of this segment is derived from the sale of branded footwear to external customers as well as royalty income from the licensing of the Company's trademarks and brand names to licensees and distributors. The business units comprising the branded footwear and licensing segment manufacture or source, market and distribute products in a similar manner. Branded footwear and licensed products are distributed through wholesale channels and under licensing and distributor arrangements.

The other business units in the following table consist of the Company's retail, tannery and pigskin procurement operations. The Company operated 76 domestic retail stores and 10 consumer-direct internet sites at March 25, 2006 that sell Company-manufactured and sourced products, as well as footwear manufactured by unaffiliated companies. The other business units distribute products through retail and wholesale chann