

WOLVERINE WORLD WIDE INC /DE/

Form 10-Q

October 22, 2009

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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 12, 2009  
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 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 62,728,603 shares of Common Stock, \$1 par value, outstanding as of October 16, 2009, of which 13,160,103 shares are held as Treasury Stock.



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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about, among other things, the footwear business, worldwide economics and Wolverine World Wide, Inc. (the Company) itself. Forward-looking statements include, without limitation, those related to:

- future revenue, earnings, margins, growth, cash flows, operating measurements, tax rates and tax benefits;
- expected economic returns;
- projected 2009 operating results, restructuring and other transition costs and dividend rates;
- future share repurchase activity;
- the effect of new accounting rules and guidance;
- future brand positioning;
- seasonal sales patterns and capital requirements;
- ability to arrange adequate alternative sources of supply;
- the outcome of litigation;
- achievement of the Company vision;
- future pension expenses, contributions and costs;
- future marketing investments;
- the ability to successfully extend into new lines or categories of products, including the extension into Merrell® Apparel;
- the ability to integrate acquired brands or businesses, including the acquired Chaco® Footwear and Cushe™ Footwear businesses;
- future growth or success in specific countries, categories or market sectors;
- foreign exchange fluctuations, including volatility of the U.S. dollar versus the British pound, euro, Canadian dollar and other currencies;
- liquidity;
- capital resources; and
- market risk.

In addition, words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, 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;
- 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 costs of 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 fluctuation in valuations compared to the U.S. dollar;
- changes in monetary controls and valuations of the Chinese yuan and the relative value to the U.S. dollar;

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the risk of doing business in developing countries and economically volatile areas;  
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;  
loss of significant customers;  
bankruptcies of significant vendors or 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 credit risk on the Company's suppliers, distributors and customers;  
the success of new business initiatives, including apparel 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 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 2009 restructuring plan;  
the Company's ability to implement and recognize benefits from tax planning strategies;  
the Company's ability to meet at-once orders;  
changes in government and regulatory policies;  
retail buying patterns;  
consolidation in the retail sector; and  
the acceptance of U.S. brands in international markets.

Additionally, concerns regarding acts of terrorism, the wars in the Middle East, 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 the potential outcome described in 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 3, 2009. 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)**

|  | <b>September<br/>12,<br/>2009<br/>(Unaudited)</b> | January 3,<br>2009<br>(Audited) | September 6,<br>2008<br>(Unaudited) |
|--|---|---------------------------------|-------------------------------------|
| <b>ASSETS</b>                                  |   |                                 |                                     |
| <b>CURRENT ASSETS</b>                          |   |                                 |                                     |
| Cash and cash equivalents                      | \$ 78,539   | \$ 89,502                       | \$ 74,310                           |
| Accounts receivable, less allowances           |   |                                 |                                     |
| September 12, 2009 \$15,414                    |   |                                 |                                     |
| January 3, 2009 \$15,161                       |   |                                 |                                     |
| September 6, 2008 \$15,684                     | <b>223,453</b>                                    | 167,949                         | 240,522                             |
| Inventories:                                   |   |                                 |                                     |
| Finished products                              | <b>168,781</b>                                    | 177,801                         | 177,530                             |
| Raw materials and work in process              | <b>15,202</b>                                     | 18,976                          | 16,532                              |
|  | <b>183,983</b>                                    | 196,777                         | 194,062                             |
| Deferred income taxes                          | <b>12,220</b>                                     | 8,127                           | 10,122                              |
| Prepaid expenses and other current assets      | <b>12,132</b>                                     | 11,487                          | 11,581                              |
| <b>TOTAL CURRENT ASSETS</b>                    | <b>510,327</b>                                    | 473,842                         | 530,597                             |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>           |   |                                 |                                     |
| Gross cost                                     | <b>303,533</b>                                    | 298,438                         | 291,488                             |
| Less accumulated depreciation                  | <b>227,792</b>                                    | 212,681                         | 208,230                             |
|  | <b>75,741</b>                                     | 85,757                          | 83,258                              |
| <b>OTHER ASSETS</b>                            |   |                                 |                                     |
| Goodwill and other non-amortizable intangibles | <b>56,646</b>                                     | 41,567                          | 45,534                              |
| Cash surrender value of life insurance         | <b>36,252</b>                                     | 35,531                          | 34,349                              |
| Pension assets                                 |   |                                 | 18,289                              |
| Other  | <b>28,638</b>                                     | 28,083                          | 9,667                               |
|  | <b>121,536</b>                                    | 105,181                         | 107,839                             |
| <b>TOTAL ASSETS</b>                            | <b>\$ 707,604</b>                                 | \$ 664,780                      | \$ 721,694                          |

The accompanying notes are an integral part of the consolidated condensed financial statements

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**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**  
**Consolidated Condensed Balance Sheets** continued  
(Thousands of dollars, except share data)

|   | September<br>12,<br>2009<br>(Unaudited) | January 3,<br>2009<br>(Audited) | September 6,<br>2008<br>(Unaudited) |
|---|---|---------------------------------|-------------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |   |                                 |                                     |
| <b>CURRENT LIABILITIES</b>  |   |                                 |                                     |
| Accounts payable  | \$ 42,005                               | \$ 45,320                       | \$ 54,284                           |
| Accrued salaries and wages  | 21,026                                  | 22,702                          | 19,436                              |
| Accrued pension liabilities   | 2,044                                   | 28,144                          | 1,828                               |
| Restructuring reserve   | 4,768                                   |                                 |                                     |
| Other accrued liabilities   | 78,555                                  | 35,658                          | 69,025                              |
| Current maturities of long-term debt  | 556                                     | 5                               | 10,725                              |
| Revolving credit agreement  | 9,900                                   | 59,500                          | 70,897                              |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>158,854</b>                          | 191,329                         | 226,195                             |
| Long-term debt (less current maturities)  | 1,112                                   |                                 |                                     |
| Deferred compensation   | 5,616                                   | 7,714                           | 7,782                               |
| Accrued pension liabilities   | 67,548                                  | 34,777                          | 24,418                              |
| Other non-current liabilities   | 1,979                                   | 1,038                           | 1,114                               |
| <b>STOCKHOLDERS EQUITY</b>  |   |                                 |                                     |
| Common Stock par value \$1, authorized 160,000,000 shares;<br>shares issued (including shares in treasury): |   |                                 |                                     |
| September 12, 2009 62,588,558 shares  |   |                                 |                                     |
| January 3, 2009 61,655,814 shares   |   |                                 |                                     |
| September 6, 2008 61,589,057 shares   | 62,589                                  | 61,656                          | 61,589                              |
| Additional paid-in capital  | 73,892                                  | 64,696                          | 60,628                              |
| Retained earnings   | 695,100                                 | 666,027                         | 647,253                             |
| Accumulated other comprehensive income (loss)   | (33,995)                                | (42,834)                        | 10,943                              |
| Cost of shares in treasury:   |   |                                 |                                     |
| September 12, 2009 13,163,115 shares  |   |                                 |                                     |
| January 3, 2009 12,748,721 shares   |   |                                 |                                     |
| September 6, 2008 12,678,680 shares   | (325,091)                               | (319,623)                       | (318,228)                           |
| <b>TOTAL STOCKHOLDERS EQUITY</b>  | <b>472,495</b>                          | 429,922                         | 462,185                             |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>\$ 707,604</b>                       | \$ 664,780                      | \$ 721,694                          |

The accompanying notes are an integral part of the 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                    |                      |
|--|-----------------------------------|----------------------|-----------------------------------|----------------------|
|  | <b>September<br/>12,<br/>2009</b> | September 6,<br>2008 | <b>September<br/>12,<br/>2009</b> | September 6,<br>2008 |
| Revenue                                      | \$ <b>286,764</b>                 | \$ 318,852           | \$ <b>788,526</b>                 | \$ 874,452           |
| Cost of products sold                        | <b>171,498</b>                    | 190,122              | <b>474,939</b>                    | 521,762              |
| Restructuring and other transition costs     | <b>1,301</b>                      |                      | <b>4,639</b>                      |                      |
| <b>GROSS PROFIT</b>                          | <b>113,965</b>                    | 128,730              | <b>308,948</b>                    | 352,690              |
| Selling, general and administrative expenses | <b>74,015</b>                     | 82,389               | <b>222,158</b>                    | 244,192              |
| Restructuring and other transition costs     | <b>3,787</b>                      |                      | <b>22,826</b>                     |                      |
| Operating expenses                           | <b>77,802</b>                     | 82,389               | <b>244,984</b>                    | 244,192              |
| <b>OPERATING INCOME</b>                      | <b>36,163</b>                     | 46,341               | <b>63,964</b>                     | 108,498              |
| Other expenses (income):                     |                                   |                      |                                   |                      |
| Interest expense                             | <b>70</b>                         | 675                  | <b>500</b>                        | 1,839                |
| Interest income                              | <b>(55)</b>                       | (366)                | <b>(277)</b>                      | (1,165)              |
| Other (income) expense                       | <b>(333)</b>                      | (880)                | <b>79</b>                         | (1)                  |
|  | <b>(318)</b>                      | (571)                | <b>302</b>                        | 673                  |
| <b>EARNINGS BEFORE INCOME TAXES</b>          | <b>36,481</b>                     | 46,912               | <b>63,662</b>                     | 107,825              |
| Income taxes                                 | <b>9,687</b>                      | 15,721               | <b>18,467</b>                     | 36,121               |
| <b>NET EARNINGS</b>                          | <b>\$ 26,794</b>                  | \$ 31,191            | <b>\$ 45,195</b>                  | \$ 71,704            |
| Net earnings per share:                      |                                   |                      |                                   |                      |
| Basic  | <b>\$ 0.54</b>                    | \$ 0.64              | <b>\$ 0.92</b>                    | \$ 1.44              |
| Diluted                                      | <b>\$ 0.54</b>                    | \$ 0.62              | <b>\$ 0.91</b>                    | \$ 1.41              |
| Cash dividends per share                     | <b>\$ 0.11</b>                    | \$ 0.11              | <b>\$ 0.33</b>                    | \$ 0.33              |

The accompanying notes are an integral part of the 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                    |                      |
|---|-----------------------------------|----------------------|
|   | <b>September<br/>12,<br/>2009</b> | September 6,<br>2008 |
| <b>OPERATING ACTIVITIES</b>   |                                   |                      |
| Net earnings  | \$ 45,195                         | \$ 71,704            |
| Adjustments necessary to reconcile net earnings to net cash provided by operating activities: |                                   |                      |
| Depreciation  | 11,852                            | 13,040               |
| Amortization  | 1,159                             | 948                  |
| Deferred income taxes   | (822)                             | (631)                |
| Stock-based compensation expense  | 6,356                             | 5,873                |
| Excess tax benefits from stock-based compensation   |                                   | (1,471)              |
| Pension expense   | 6,671                             | 25                   |
| Restructuring and other transition costs  | 27,465                            |                      |
| Cash payments related to restructuring  | (14,608)                          |                      |
| Other   | (11,376)                          | 9,651                |
| Changes in operating assets and liabilities:  |                                   |                      |
| Accounts receivable   | (46,979)                          | (71,205)             |
| Inventories   | 19,417                            | (32,248)             |
| Other operating assets  | (216)                             | 114                  |
| Accounts payable and other liabilities  | 26,959                            | 33,600               |
| <br>Net cash provided by operating activities   | <br><b>71,073</b>                 | <br>29,400           |
| <b>INVESTING ACTIVITIES</b>   |                                   |                      |
| Business acquisitions   | (7,954)                           |                      |
| Additions to property, plant and equipment  | (7,440)                           | (12,635)             |
| Other   | (1,876)                           | (3,931)              |
| <br>Net cash used in investing activities   | <br><b>(17,270)</b>               | <br>(16,566)         |
| <b>FINANCING ACTIVITIES</b>   |                                   |                      |
| Net borrowings (payments) under revolver  | (49,600)                          | 70,897               |
| Payments of capital lease obligations   | (5)                               | (6)                  |
| Cash dividends paid   | (16,105)                          | (15,468)             |
| Purchase of common stock for treasury   | (6,197)                           | (74,658)             |
| Proceeds from shares issued under stock incentive plans                                       | 3,876                             | 5,529                |
| Excess tax benefits from stock-based compensation   |                                   | 1,471                |

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|   |                  |                  |
|---|------------------|------------------|
| Net cash used in financing activities                 | <b>(68,031)</b>  | (12,235)         |
| Effect of foreign exchange rate changes               | <b>3,265</b>     | (2,376)          |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>          | <b>(10,963)</b>  | (1,777)          |
| Cash and cash equivalents at beginning of the period  | <b>89,502</b>    | 76,087           |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b> | <b>\$ 78,539</b> | <b>\$ 74,310</b> |

The accompanying notes are an integral part of the consolidated condensed financial statements

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**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements**  
**September 12, 2009 and September 6, 2008**

**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, apparel, work shoes and boots, and uniform shoes and boots. The Company's global 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 programs are utilized to extend the global reach of the Company's owned brands. The Company also operates a retail division to market its brands and 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 3, 2009.

**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 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, 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 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.

**SUBSEQUENT EVENTS**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through October 22, 2009, the date the financial statements were issued.

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**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements continued**  
**September 12, 2009 and September 6, 2008**

**2. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share (thousands of dollars, except share and per share data):

|  | 12 Weeks Ended           |                      | 36 Weeks Ended           |                      |
|--|--------------------------|----------------------|--------------------------|----------------------|
|  | September<br>12,<br>2009 | September 6,<br>2008 | September<br>12,<br>2009 | September 6,<br>2008 |
| Numerator:   |                          |                      |                          |                      |
| Net earnings   | \$ 26,794                | \$ 31,191            | \$ 45,195                | \$ 71,704            |
| Adjustment for earnings allocated to nonvested restricted common stock   | (503)                    | (302)                | (741)                    | (777)                |
| Net earnings used in calculating basic earnings per share                | 26,291                   | 30,889               | 44,454                   | 70,927               |
| Adjustment for earnings reallocated to nonvested restricted common stock | 7                        | 6                    | 6                        | 15                   |
| Net earnings used in calculating diluted earnings per share              | \$ 26,298                | \$ 30,895            | \$ 44,460                | \$ 70,942            |
| Denominator:   |                          |                      |                          |                      |
| Weighted average shares outstanding                                      | 49,234,656               | 48,985,866           | 49,079,465               | 49,641,783           |
| Adjustment for nonvested restricted common stock                         | (981,530)                | (474,650)            | (904,990)                | (538,217)            |
| Shares used in calculating basic earnings per share                      | 48,253,126               | 48,511,216           | 48,174,475               | 49,103,566           |
| Effect of dilutive stock options   | 832,674                  | 1,183,955            | 574,947                  | 1,297,718            |
| Shares used in calculating diluted earnings per share                    | 49,085,800               | 49,695,171           | 48,749,422               | 50,401,284           |
| Net earnings per share:  |                          |                      |                          |                      |
| Basic  | \$ 0.54                  | \$ 0.64              | \$ 0.92                  | \$ 1.44              |
| Diluted  | \$ 0.54                  | \$ 0.62              | \$ 0.91                  | \$ 1.41              |

Options to purchase 1,357,240 and 3,248,232 shares of common stock for the 12 and 36 weeks ended September 12, 2009, respectively, and 1,336,589 and 1,224,173 shares for the 12 and 36 weeks ended September 6, 2008, respectively, 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. Effective January 4, 2009, the Company implemented the Financial Accounting Standards Board ( FASB ) Staff Position ( FSP ) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ) (FASB Accounting Standards Codification ( FASB ASC ) Topic 260). FSP EITF 03-6-1 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 as described in Statement of Financial Accounting Standards ( SFAS ) No. 128, *Earnings per Share* (FASB ASC Section 260-10-55). Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. For the 12 weeks ended September 12, 2009 the application of this standard reduced basic net earnings per share by \$0.02, and had no impact on diluted net earnings per share. The application of this standard had no impact on basic or diluted net earnings per share for the 12 weeks ended September 6, 2008. For the 36 weeks ended September 12, 2009 the application of this standard reduced basic net earnings per share by \$0.02, and reduced diluted net earnings per share by \$0.01. For the 36 weeks ended September 6, 2008, the application of this standard reduced basic net earnings per share by \$0.02 and had no impact on diluted net earnings per share.

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**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Condensed Financial Statements continued**  
**September 12, 2009 and September 6, 2008**

**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 September 6, 2008         | \$ 36,387 | \$ 9,147   | \$ 45,534 |
| Intangibles acquired                 |           | 127        | 127       |
| Intangibles disposed                 |           | (17)       | (17)      |
| Foreign currency translation effects | (4,077)   |            | (4,077)   |
| Balance at January 3, 2009           | 32,310    | 9,257      | 41,567    |
| Intangibles acquired                 | 5,351     | 6,894      | 12,245    |
| Foreign currency translation effects | 2,834     |            | 2,834     |
| Balance at September 12, 2009        | \$ 40,495 | 16,151     | 56,646    |

**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 (thousands of dollars):

|  | September<br>12,<br>2009 | January 3,<br>2009 | September 6,<br>2008 |
|--|--------------------------|--------------------|----------------------|
| Foreign currency translation adjustments                   | \$ 16,735                | \$ (872)           | \$ 20,005            |
| Foreign currency cash flow hedge adjustments, net of taxes | (4,845)                  | 3,923              | 2,048                |
| Pension adjustments, net of taxes                          | (45,885)                 | (45,885)           | (11,110)             |
| Accumulated other comprehensive income (loss)              | \$ (33,995)              | \$ (42,834)        | \$ 10,943            |

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

|   | 12 Weeks Ended           |                      | 36 Weeks Ended           |                      |
|---|--------------------------|----------------------|--------------------------|----------------------|
|   | September<br>12,<br>2009 | September 6,<br>2008 | September<br>12,<br>2009 | September 6,<br>2008 |
| Net earnings  | \$ 26,794                | \$ 31,191            | \$ 45,195                | \$ 71,704            |
| Other comprehensive income (loss):                                      |                          |                      |                          |                      |
| Foreign currency translation adjustments                                | 6,764                    | (14,065)             | 17,607                   | (15,428)             |
| Change in fair value of foreign currency cash flow hedges, net of taxes | (3,203)                  | 2,875                | (8,768)                  | 4,103                |
| Comprehensive income  | \$ 30,355                | \$ 20,001            | \$ 54,034                | \$ 60,379            |

**5. Business Segments**



The Company has one reportable segment that is engaged in manufacturing, sourcing, marketing, licensing, and distributing branded footwear, apparel, and accessories to the retail sector. Revenues earned from the operation of this segment is derived from the sale of branded footwear and apparel to external customers as well as receipt of royalty income from the licensing of the Company's trademarks and brand names to licensees and distributors. The business units comprising the branded footwear, apparel, and licensing segment manufacture or source, market, and distribute products in a similar manner. Branded footwear and apparel products are distributed through wholesale channels and under licensing and distributor arrangements.

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The other business units in the following tables consist of the Company's retail, leathers, and pigskin procurement operations. These other operations do not collectively form a reportable segment because their respective operations are dissimilar. The Company operated 94 retail stores and 23 consumer-direct internet sites at September 12, 2009 that sell Company-manufactured and sourced products, as well as footwear and apparel from unaffiliated companies. 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 segment and other business units are the same as disclosed in Note 1.

Business segment information is as follows (thousands of dollars):

|                                     | <b>Branded<br/>Footwear,<br/>Apparel<br/>and<br/>Licensing</b> | <b>Other<br/>Business<br/>Units</b> | <b>Corporate</b> | <b>Consolidated</b> |
|-------------------------------------|--|-------------------------------------|------------------|---------------------|
|                                     | 12 Weeks Ended September 12, 2009                              |                                     |                  |                     |
| Revenue                             | \$ 262,803   | \$ 23,961                           | \$               | \$ 286,764          |
| Intersegment revenue                | 16,937   | 445                                 |                  | 17,382              |
| Earnings (loss) before income taxes | 40,471   | (1,083)                             | (2,907)          | 36,481              |
| Total assets                        | 563,847  | 36,836                              | 106,921          | 707,604             |

|                                     |                                   |           |          |            |
|-------------------------------------|-----------------------------------|-----------|----------|------------|
|                                     | 36 Weeks Ended September 12, 2009 |           |          |            |
| Revenue                             | \$ 716,026                        | \$ 72,500 | \$       | \$ 788,526 |
| Intersegment revenue                | 38,858                            | 1,911     |          | 40,769     |
| Earnings (loss) before income taxes | 89,038                            | (11,564)  | (13,812) | 63,662     |
| Total assets                        | 563,847                           | 36,836    | 106,921  | 707,604    |

|                                     | <b>Branded<br/>Footwear,<br/>Apparel<br/>and<br/>Licensing</b> | <b>Other<br/>Business<br/>Units</b> | <b>Corporate</b> | <b>Consolidated</b> |
|-------------------------------------|--|-------------------------------------|------------------|---------------------|
|                                     | 12 Weeks Ended September 6, 2008                               |                                     |                  |                     |
| Revenue                             | \$ 292,485   | \$ 26,367                           | \$               | \$ 318,852          |
| Intersegment revenue                | 13,543   | 641                                 |                  | 14,184              |
| Earnings (loss) before income taxes | 53,302   | 154                                 | (6,544)          | 46,912              |
| Total assets                        | 539,093  | 50,462                              | 132,139          | 721,694             |

|                                     |                                  |           |          |            |
|-------------------------------------|----------------------------------|-----------|----------|------------|
|                                     | 36 Weeks Ended September 6, 2008 |           |          |            |
| Revenue                             | \$ 796,100                       | \$ 78,352 | \$       | \$ 874,452 |
| Intersegment revenue                | 35,005                           | 2,638     |          | 37,643     |
| Earnings (loss) before income taxes | 121,871                          | 954       | (15,000) | 107,825    |
| Total assets                        | 539,093                          | 50,462    | 132,139  | 721,694    |

**6. Financial Instruments and Risk Management**

The Company follows SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ) (FASB ASC Topic 820), which, among other things, establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair

value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. As of September 12, 2009 and September 6, 2008, a liability of \$3,834,000 and an asset of \$2,894,000, respectively, have been recognized for the fair value of the Company's foreign exchange contracts. In accordance with SFAS No. 157, these assets and liabilities fall within Level 2 of the fair value hierarchy. The Company did not have any additional assets or liabilities that were measured at fair value on a recurring basis at September 12, 2009.

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Effective January 4, 2009, the Company adopted the provisions of FSP FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ) (FASB ASC Section 820-10-65). FSP 157-2 delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Effective January 4, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133*, ( SFAS No. 161 ) (FASB ASC Topic 815), which is intended to improve transparency in financial reporting. As required by SFAS No. 161, the Company enhanced its disclosure relating to derivative instruments and hedging activities and their effects on the Company's financial position, financial performance and cash flows.

The Company follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS Nos. 137, 138, and 161 (FASB ASC Topic 815), which requires that all derivative instruments be recorded on the consolidated condensed balance sheets at fair value and establishes criteria for designation and effectiveness of hedging relationships. The Company utilizes foreign currency forward exchange contracts to manage the volatility associated with inventory purchases made by non-U.S. wholesale operations in U.S. dollars in the normal course of business. At September 12, 2009 and September 6, 2008, foreign currency forward exchange contracts with a notional value of \$55,407,000 and \$47,603,000, respectively, were outstanding to purchase U.S. dollars with maturities ranging up to 308 days. These contracts have been designated as cash flow hedges.

The fair value of the foreign currency forward exchange contracts represents the estimated receipts or payments necessary to terminate the contracts. Hedge effectiveness is evaluated by the hypothetical derivative method. Any hedge ineffectiveness is reported within the cost of products sold caption of the consolidated condensed statements of operations. Hedge ineffectiveness was not material to the consolidated condensed financial statements for the quarters ended September 12, 2009 and September 6, 2008. If, in the future, the foreign exchange contracts are determined to be ineffective hedges or terminated before their contractual termination dates, the Company would be required to reclassify into earnings all or a portion of the unrealized amounts related to the cash flow hedges that are currently included in accumulated other comprehensive income (loss) within stockholders' equity. For the 12 weeks ended September 12, 2009 and September 6, 2008, the Company recognized a loss of \$2,031,000 and a gain of \$293,000, respectively, in accumulated other comprehensive income (loss) related to the effective portion of its foreign exchange contracts. For the 12 weeks ended September 12, 2009 and September 6, 2008, the Company reclassified a loss of \$1,161,000 and a gain of \$946,000, respectively, from accumulated other comprehensive income (loss) into cost of products sold related to the effective portion of its foreign exchange contracts designated and qualifying as cash flow hedges. For the 36 weeks ended September 12, 2009 and September 6, 2008, the Company recognized a gain of \$1,136,000 and a loss of \$1,233,000, respectively, in accumulated other comprehensive income (loss) related to the effective portion of its foreign exchange contracts. For the 36 weeks ended September 12, 2009 and September 6, 2008, the Company reclassified a loss of \$5,148,000 and a gain of \$2,256,000, respectively, from accumulated other comprehensive income (loss) into cost of products sold related to the effective portion of its foreign exchange contracts designated and qualifying as cash flow hedges.

The Company's other financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts and notes payable and long-term debt. The Company's estimate of the fair values of these financial instruments approximates their carrying amounts at September 12, 2009. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and because interest rates approximate current market rates for debt. The Company does not hold or issue financial instruments for trading purposes.

The Company does not generally require collateral or other security on trade accounts and notes receivable.



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**7. Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* (FASB ASC Topic 718). The Company recognized compensation costs of \$2,326,000 and \$6,356,000, respectively, and related income tax benefits of \$661,000 and \$1,579,000, respectively, for grants under its stock-based compensation plans in the statements of operations for the 12 and 36 weeks ended September 12, 2009. For the 12 and 36 weeks ended September 6, 2008, the Company recognized compensation costs of \$1,960,000 and \$5,873,000, respectively, and related income tax benefits of \$438,000 and \$1,237,000, respectively, for grants under its stock-based compensation plans.

Stock-based compensation expense recognized in the consolidated condensed statements of operations for the 12 and 36 weeks ended September 12, 2009 and September 6, 2008 has been reduced for estimated forfeitures, as it is based on awards ultimately expected to vest. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

The Company estimated the fair value of employee stock options on the date of grant using the Black-Scholes model. The estimated weighted-average fair value for each option granted during the 36 weeks ended September 12, 2009 and September 6, 2008 was \$4.38 and \$5.68 per share, respectively, with the following weighted-average assumptions:

|   | 12 Weeks Ended           |                         | 36 Weeks Ended           |                         |
|---|--------------------------|-------------------------|--------------------------|-------------------------|
|   | September<br>12,<br>2009 | September<br>6,<br>2008 | September<br>12,<br>2009 | September<br>6,<br>2008 |
| Expected market price volatility <sup>(1)</sup> | 37.0%                    | 30.9%                   | 34.8%                    | 28.8%                   |
| Risk-free interest rate <sup>(2)</sup>          | 2.0%                     | 3.0%                    | 1.6%                     | 2.5%                    |
| Dividend yield <sup>(3)</sup>                   | 2.1%                     | 1.7%                    | 1.8%                     | 1.6%                    |
| Expected term <sup>(4)</sup>                    | 4 years                  | 4 years                 | 4 years                  | 4 years                 |

(1) Based on historical volatility of the Company's common stock. The expected volatility is based on the daily percentage change in the price of the stock over four years.

(2) Represents the U.S. Treasury yield curve in effect for the expected term of the option at

the time of  
grant.

- (3) Represents the Company's cash dividend yield for the expected term.
- (4) Represents the period of time that options granted are expected to be outstanding. As part of the determination of the expected term, the Company concluded that all employee groups exhibit similar exercise and post-vesting termination behavior.

The Company issued 163,756 and 979,825 shares of common stock in connection with the exercise of stock options and new restricted stock grants during the 12 and 36 weeks ended September 12, 2009, respectively. The Company cancelled 3,800 and 15,634 shares of common stock for restricted stock awards as a result of forfeitures during the 12 and 36 weeks ended September 12, 2009, respectively.

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**8. Pension Expense**

A summary of net pension and Supplemental Executive Retirement Plan costs recognized by the Company is as follows (thousands of dollars):

|  | 12 Weeks Ended           |                      | 36 Weeks Ended           |                      |
|--|--------------------------|----------------------|--------------------------|----------------------|
|  | September<br>12,<br>2009 | September 6,<br>2008 | September<br>12,<br>2009 | September 6,<br>2008 |
| Service cost pertaining to benefits earned during the period | \$ 1,046                 | \$ 1,122             | \$ 3,201                 | \$ 3,365             |
| Interest cost on projected benefit obligations               | 2,756                    | 2,635                | 8,433                    | 7,903                |
| Expected return on pension assets                            | (2,444)                  | (3,212)              | (7,480)                  | (9,635)              |
| Net amortization loss  | 2,149                    | 915                  | 6,577                    | 2,746                |
| Net pension expense  | \$ 3,507                 | \$ 1,460             | \$ 10,731                | \$ 4,379             |

**9. Litigation and Contingencies**

The Company is involved in various environmental claims and other legal actions arising in the normal course of business. The environmental claims include sites where the U.S. Environmental Protection Agency has notified the Company that it is a potentially responsible party with respect to environmental remediation. These remediation claims are subject to ongoing environmental impact studies, assessment of remediation alternatives, allocation of costs between responsible parties, and concurrence by regulatory authorities and have not yet advanced to a stage where the Company's liability is fixed. However, after taking into consideration legal counsel's evaluation of all actions and claims against the Company, management is currently of the opinion that their outcome will not have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows.

The Company is involved in routine litigation incidental to its business and is a party to legal actions and claims, including, but not limited to, those related to employment and intellectual property. Some of the legal proceedings include claims for compensatory as well as punitive damages. While the final outcome of these matters cannot be predicted with certainty, considering, among other things, the meritorious legal defenses available to the Company and liabilities that have been recorded along with applicable insurance, it is currently the opinion of the Company's management that these items will not have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows.

Pursuant to certain of the Company's lease agreements, the Company has provided financial guarantees to third parties in the form of indemnification provisions. These provisions require the Company to indemnify and reimburse the third parties for specified costs, including but not limited to adverse judgments in lawsuits, taxes and operating costs. The terms of the guarantees are equal to the terms of the related lease agreements. The Company is not able to calculate the maximum potential amount of future payments it could be required to make under these guarantees, as the potential payment is dependent upon the occurrence of future unknown events.

The Company has future minimum royalty and other obligations due under the terms of certain licenses held by the Company. These minimum future obligations are as follows (thousands of dollars):

|                     | 2009     | 2010     | 2011     | 2012   | 2013   | Thereafter |
|---------------------|----------|----------|----------|--------|--------|------------|
| Minimum royalties   | \$ 1,328 | \$ 1,544 | \$ 1,772 | \$ 970 | \$ 999 | \$ 1,029   |
| Minimum advertising | 2,121    | 2,208    | 2,275    | 2,343  | 2,413  | 1,125      |

Minimum royalties are based on both fixed obligations and assumptions related to the consumer price index. Royalty obligations in excess of minimum requirements are based upon future sales levels. In accordance with these



agreements, the Company incurred royalty expense of \$702,000 and \$2,046,000, respectively, for the 12 and 36 weeks ended September 12, 2009. The Company has met the minimum royalty requirements for 2009. For the 12 and 36 weeks ended September 6, 2008, the Company incurred royalty expense of \$916,000 and \$2,270,000, respectively.

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The terms of certain license agreements also require the Company to make advertising expenditures based on the level of sales. In accordance with these agreements, the Company incurred advertising expense of \$733,000 and \$1,782,000, respectively, for the 12 and 36 weeks ended September 12, 2009. For the 12 and 36 weeks ended September 6, 2008, the Company incurred advertising expense of \$834,000 and \$2,418,000, respectively.

**10. Restructuring and Other Transition Costs**

On January 8, 2009 the Company announced a strategic restructuring plan designed to create significant operating efficiencies, improve its supply chain and create a stronger global brand platform. The Company is consolidating key manufacturing, distribution and global operations functions. On October 7, 2009, the Company announced that this plan has been expanded to include consolidating domestic manufacturing into the Company's Big Rapids, Michigan facility and significant improvements in the Outdoor Group's footwear and apparel product creation activities. The total costs to implement these programs are now expected to be \$35,000,000 to \$38,000,000. The Company expects to complete the restructuring plan in the first half of 2010. The amount expected to be incurred during 2009 is estimated to range from \$33,000,000 to \$36,000,000. These estimates are preliminary and differences may arise between these estimates and the actual costs incurred. The Company incurred restructuring and other transition costs of \$5,088,000 (\$3,735,000 on an after-tax basis), or \$0.08 per diluted share, and \$27,465,000 (\$19,500,000 on an after-tax basis), or \$0.40 per diluted share, for the 12 and 36 weeks ended September 12, 2009, respectively.

The following is a summary of the restructuring and other transition costs recorded as of September 12, 2009 (thousands of dollars):

|  | 12 Weeks<br>Ended<br>September 12,<br>2009 | 36 Weeks<br>Ended<br>September 12,<br>2009 |
|--|--|--|
| Restructuring                                  | \$ 3,567                                   | \$ 22,771                                  |
| Other transition costs                         | 1,521                                      | 4,694                                      |
| Total restructuring and other transition costs | \$ 5,088                                   | \$ 27,465                                  |

**Restructuring**

The Company incurred restructuring charges of \$3,567,000 (\$2,618,000 on an after-tax basis), or \$0.05 per diluted share, for the 12 weeks ended September 12, 2009. The Company incurred restructuring charges of \$22,771,000 (\$16,167,000 on an after-tax basis), or \$0.33 per diluted share, for the 36 weeks ended September 12, 2009.

The following is a summary of the activity with respect to a reserve established by the Company in connection with the restructuring plan, by category of costs (thousands of dollars):

|                            | Severance<br>and<br>employee<br>related | Non-cash<br>charges<br>related<br>to property<br>and<br>equipment | Facility<br>exit<br>costs | Consulting<br>and other<br>restructuring | Total    |
|----------------------------|---|---|---------------------------|--|----------|
| Balance at January 3, 2009 | \$                                      | \$  | \$                        | \$                                       | \$       |
| Charges incurred           | 10,971                                  | 6,196   | 689                       | 1,348                                    | 19,204   |
| Amounts paid or utilized   | (8,587)                                 | (6,196)   | (23)                      | (1,283)                                  | (16,089) |

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|                               |    |              |    |              |    |              |    |              |    |                |
|-------------------------------|----|--------------|----|--------------|----|--------------|----|--------------|----|----------------|
| Balance at June 20, 2009      | \$ | 2,384        | \$ |              | \$ | 666          | \$ | 65           | \$ | 3,115          |
| Charges incurred              |    | <b>2,049</b> |    | <b>754</b>   |    | <b>467</b>   |    | <b>297</b>   |    | <b>3,567</b>   |
| Amounts paid or utilized      |    | <b>(596)</b> |    | <b>(754)</b> |    | <b>(305)</b> |    | <b>(259)</b> |    | <b>(1,914)</b> |
| Balance at September 12, 2009 | \$ | <b>3,837</b> | \$ |              | \$ | <b>828</b>   | \$ | <b>103</b>   | \$ | <b>4,768</b>   |

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***Other Transition Costs***

Incremental costs incurred related to the restructuring plan that do not qualify as restructuring costs under the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ( SFAS No. 146 ) (FASB ASC Topic 420), have been included in the Company's consolidated condensed statements of operations on the line titled "Restructuring and other transition costs". These primarily include costs related to inventory markdowns resulting from closure of facilities, new employee training and transition to outsourced services. All costs included in this caption were solely related to the transition and implementation of the restructuring plan and do not include ongoing business operating costs. Other transition costs for the 12 and 36 weeks ended September 12, 2009, were \$1,521,000 (\$1,116,000 on an after-tax basis) and \$4,694,000 (\$3,333,000 on an after-tax basis), respectively.

**11. Business Acquisitions**

On January 8, 2009, the Company announced the acquisition of the Cushe™ footwear brand. The purchase price consisted of \$1,669,000 cash, a \$1,669,000 note payable over three years and contingent consideration of \$948,000. The Company acquired assets valued at \$309,000, consisting primarily of property, plant, and equipment and inventory, and assumed operating liabilities valued at \$328,000, resulting in goodwill and intangibles of \$4,304,000 at September 12, 2009. Amounts relating to the acquisition are subject to changes in foreign currency exchange rates.

On January 22, 2009, the Company acquired the Chaco® footwear brand and certain assets for cash of \$6,910,000 and assumed operating liabilities valued at \$4,662,000. The Company acquired assets valued at \$3,912,000, consisting primarily of accounts receivable and inventory. The purchase resulted in goodwill and intangibles recorded at September 12, 2009 of \$7,660,000.

Using the purchase method of accounting, the purchase price in each of these acquisitions is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the effective date of the acquisition. The excess purchase price over the assets and liabilities is recorded as goodwill. The purchase price allocation was finalized during the third quarter of 2009 and a final determination of all purchase accounting adjustments was made upon finalization of asset valuations and acquisition costs. Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in the aggregate, were not material to the Company's consolidated results of operations. Both of the brands have been consolidated into the Company's results of operations since their respective acquisition dates.

**12. New Accounting Standards**

On December 30, 2008, the FASB issued FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ( FSP SFAS No. 132(R)-1 ) (FASB ASC Section 715-20-65). This FSP amends FASB Statement No. 132 (Revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits* ( SFAS No. 132(R) ), to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by FSP SFAS No. 132(R)-1 shall be provided for fiscal years ending after December 15, 2009 (fiscal 2009 for the Company). Upon initial application, the additional disclosure under FSP SFAS No. 132(R)-1 is not required for earlier periods that are presented for comparative purposes. Earlier application of the provisions of FSP SFAS No. 132(R)-1 is permitted. Since FSP SFAS No. 132(R)-1 requires only additional disclosures concerning plan assets, adoption of FSP SFAS No. 132(R)-1 will not affect the Company's consolidated financial condition, results of operations, or cash flows.

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In April 2009, the FASB issued Staff Position FAS No. 107-1 and Accounting Principles Bulletin ( APB ) No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP No. 107-1 and APB No. 28-1 ) (FASB ASC Section 825-10-65), to require, on an interim basis, disclosures about the fair value of financial instruments for public entities. FSP No. 107-1 and APB No. 28-1 are expected to improve the transparency and quality of information provided to financial statement users by increasing the frequency of disclosures about fair value for interim periods as well as annual periods. FSP No. 107-1 and APB No. 28-1 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has been disclosing this information on an interim basis and the adoption did not affect the Company's consolidated financial condition, results of operations, or cash flows.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS No. 165 ) (FASB ASC Topic 855). The objective of this statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165, among other things, sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures an entity should make about events or transactions that occurred after the balance sheet date. In accordance with this statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. The Company adopted SFAS No. 165 in the second quarter of 2009 and the adoption did not affect the Company's consolidated financial condition, results of operations, or cash flows.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* ( SFAS No. 168 ) (FASB ASC Topic 105). SFAS No. 168 establishes the *FASB Accounting Standards Codification™* ( Codification ) as the source of authoritative U.S. generally accepted accounting principles ( U.S. GAAP ) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009 (year ending January 2, 2010 for the Company).

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**OVERVIEW**

**BUSINESS OVERVIEW**

Wolverine World Wide, Inc. (the Company) is a leading global marketer of branded footwear, apparel and accessories. The Company's business strategy is to market a portfolio of lifestyle brands that will: *Excite Consumers Around the World with Innovative Footwear and Apparel that Bring Style to Purpose.* The Company intends to pursue this strategy by offering innovative products and compelling brand propositions, delivering supply chain excellence and operating efficiency, complementing its footwear brands with strong apparel and accessories offerings, and building a more substantial global consumer-direct footprint.

The Company has encountered a difficult economic environment, affecting consumer spending, in most of its major markets in 2009, and expects this environment will continue over the balance of the year. Furthermore, foreign exchange volatility has had a negative impact on the Company's results thus far in 2009, and the Company cannot predict how the U.S. dollar will fare against the British pound, euro and Canadian dollar over the balance of 2009. The Company is proactively taking actions to reduce costs through its strategic restructuring plan, deliver revenue growth via its January 2009 acquisitions of the Chaco® and Cushe™ brands and improve profitability through a thorough examination of all profit levers. To date, 2009 has presented challenges, but the Company planned for tough market conditions and believes that it has taken appropriate measures to combat global uncertainty. The Company remains focused on building strong global lifestyle brands that have a competitive advantage, even in a challenging worldwide economy.

**FINANCIAL HIGHLIGHTS**

The following represents selected financial performance measures for the third quarter of 2009:

Revenue for the third quarter of 2009 was \$286.8 million, a 10.1% decrease over third quarter 2008 revenue of \$318.9 million, with the substantial strengthening of the U.S. dollar contributing to approximately one-third of the revenue decline.

Diluted earnings per share for the third quarter of 2009 were \$0.54 per share compared to \$0.62 per share for the same quarter in the prior year, including the impact of \$0.08 per share of non-recurring restructuring and other transition costs.

Accounts receivable decreased 7.1% in the third quarter of 2009 compared to the third quarter of 2008 due in part to the 10.1% decrease in revenue.

Inventory decreased 5.2% in the third quarter of 2009 compared to the third quarter of 2008.

The Company ended the third quarter of 2009 with \$78.5 million of cash on hand and interest-bearing debt of \$11.6 million.

The Company declared a quarterly cash dividend of \$0.11 per share in the third quarter of 2009, payable on November 2, 2009 to stockholders of record on October 1, 2009.

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**RECENT DEVELOPMENTS**

*Strategic Restructuring Plan*

On January 7, 2009, the Board of Directors of Company approved a strategic restructuring plan focused on generating efficiencies in supply chain, distribution and backroom functions. This plan will allow the Company to create significant operating efficiencies, improve its supply chain, and create a stronger global platform. On October 7, 2009, the Company announced that two initiatives in its restructuring plan had been expanded to include consolidating domestic manufacturing into the Company's Big Rapids, Michigan facility and significant improvements in the Outdoor Group's footwear and apparel product creation activities. The Company now estimates that the total implementation costs relating to the strategic restructuring plan will range from \$35 million to \$38 million, and all initiatives will be completed in the first half of 2010. Approximately \$10 million to \$11 million of the estimated costs represent non-cash charges. Year-to-date through the third quarter, \$27.5 million of restructuring and other transition costs have been incurred. It is currently estimated that approximately \$5.5 million to \$8.5 million of restructuring and other transition costs will be incurred in the fourth quarter of 2009. Continuing annualized pretax benefits once all initiatives are fully implemented are estimated to range from \$19 million to \$21 million, compared to a previous estimate (before the two expanded initiatives were announced) of \$17 million to \$19 million. The Company estimates that approximately \$3.9 million in pre-tax benefits relating to the strategic restructuring plan are reflected in the third quarter's results and \$9.3 million have been realized year-to-date.

The Company incurred non-recurring restructuring and other transition costs of approximately \$5.1 million, or \$0.08 per diluted share, for the twelve weeks ended September 12, 2009.

*Effective Tax Rate*

The effective tax rate in the third quarter decreased to 26.6%, reflecting the year-to-date benefits from the implementation of tax planning strategies, related primarily to the Company's international operations.

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The following is a discussion of the Company's results of operations and liquidity and capital resources for the third quarter of 2009. This section should be read in conjunction with the consolidated condensed financial statements and notes.

**RESULTS OF OPERATIONS THIRD QUARTER 2009 COMPARED TO THIRD QUARTER 2008**  
**FINANCIAL SUMMARY THIRD QUARTER 2009 VERSUS THIRD QUARTER 2008**

| <i>(Millions of dollars, except per share data)</i> | 2009     |              | 2008     |              | Change    |          |
|---|----------|--------------|----------|--------------|-----------|----------|
|   | \$       | % of Total   | \$       | % of Total   | \$        | %        |
| Revenue   |          |              |          |              |           |          |
| Branded footwear, apparel and licensing             | \$ 262.8 | 91.6%        | \$ 292.5 | 91.7%        | \$ (29.7) | (10.1%)  |
| Other business units                                | 24.0     | 8.4%         | 26.4     | 8.3%         | (2.4)     | (9.1%)   |
| Total Revenue                                       | \$ 286.8 | 100.0%       | \$ 318.9 | 100.0%       | \$ (32.1) | (10.1%)  |
|   |          |              |          |              |           |          |
|   | \$       | % of Revenue | \$       | % of Revenue | \$        | %        |
| Gross Profit  |          |              |          |              |           |          |
| Branded footwear, apparel and licensing             | \$ 103.7 | 39.5%        | \$ 119.9 | 41.0%        | \$ (16.2) | (13.5%)  |
| Other business units                                | 10.3     | 42.8%        | 8.8      | 33.5%        | 1.5       | 16.1%    |
| Total Gross Profit                                  | \$ 114.0 | 39.7%        | 128.7    | 40.4%        | \$ (14.7) | (11.5%)  |
|   |          |              |          |              |           |          |
| Selling, general and administrative expenses        | \$ 74.0  | 25.8%        | \$ 82.4  | 25.8%        | \$ (8.4)  | (10.2%)  |
| Restructuring and other transition costs            | 3.8      | 1.3%         |          | 0.0%         | 3.8       | 100.0%   |
| Operating Expenses                                  | \$ 77.8  | 27.1%        | \$ 82.4  | 25.8%        | \$ (4.6)  | (5.6%)   |
|   |          |              |          |              |           |          |
| Interest expense net                                | \$ 0.0   | 0.0%         | \$ 0.3   | 0.1%         | \$ (0.3)  | (100.0%) |
| Other (income) expense net                          | (0.3)    | (0.1%)       | (0.9)    | (0.3%)       | 0.6       | 62.2%    |
| Earnings before income taxes                        | \$ 36.5  | 12.7%        | \$ 46.9  | 14.7%        | \$ (10.4) | (22.2%)  |
|   |          |              |          |              |           |          |
| Net earnings  | \$ 26.8  | 9.3%         | \$ 31.2  | 9.8%         | \$ (4.4)  | (14.1%)  |
|   |          |              |          |              |           |          |
| Diluted net earnings per share                      | \$ 0.54  |              | \$ 0.62  |              | \$ (0.08) | (12.9%)  |

The Company has one reportable segment that is engaged in manufacturing, sourcing, marketing, licensing and distributing branded footwear, apparel and accessories. Within the branded footwear, apparel and licensing segment, the Company has identified four primary operating units, consisting of the Outdoor Group (consisting of the Merrell®, Chaco® and Patagonia® Footwear brands), the Wolverine Footwear Group (consisting of the Wolverine®, HyTest®, Bates® and certain private label branded products), the Heritage Brands Group (consisting of the Cat® Footwear, Harley-Davidson® Footwear and Sebago® brands) and The Hush Puppies Company (consisting of the Hush Puppies®, Soft Style®, and Cushe™ brands). The Company's other business units, which do not collectively comprise a separate reportable segment, consist of Wolverine Retail and Wolverine Leathers (comprised of the leathers and procurement operations). The following is supplemental information on total revenue:





**Table of Contents****TOTAL REVENUE THIRD QUARTER**

|   | 2009     |            | 2008     |            | Change    |         |
|---|----------|------------|----------|------------|-----------|---------|
|   | \$       | % of Total | \$       | % of Total | \$        | %       |
| <i>(Millions of dollars)</i>                          |          |            |          |            |           |         |
| Outdoor Group   | \$ 114.8 | 40.0%      | \$ 123.1 | 38.6%      | \$ (8.3)  | (6.7%)  |
| Heritage Brands Group                                 | 55.3     | 19.3%      | 64.5     | 20.2%      | (9.2)     | (14.2%) |
| Wolverine Footwear Group                              | 53.4     | 18.6%      | 59.4     | 18.6%      | (6.0)     | (10.2%) |
| The Hush Puppies Company                              | 36.4     | 12.7%      | 42.4     | 13.3%      | (6.0)     | (14.1%) |
| Other   | 2.9      | 1.0%       | 3.1      | 1.0%       | (0.2)     | (7.5%)  |
| Total branded footwear, apparel and licensing Revenue | \$ 262.8 | 91.6%      | \$ 292.5 | 91.7%      | \$ (29.7) | (10.1%) |
| Other business units                                  | 24.0     | 8.4%       | 26.4     | 8.3%       | (2.4)     | (9.1%)  |
| Total revenue   | \$ 286.8 | 100.0%     | \$ 318.9 | 100.0%     | \$ (32.1) | (10.1%) |

**REVENUE**

Revenue for the third quarter of 2009 decreased \$32.1 million from the third quarter of 2008 to \$286.8 million. The impact of translating foreign denominated revenue to U.S. dollars decreased revenue by \$10.1 million. Declines in unit volume for the branded footwear, apparel and licensing operations, partially offset by price increases for selected brands, caused revenue to decrease \$19.6 million. Revenue from the other business units decreased \$2.4 million. International revenue represented 42.9% of total revenue in the third quarter of 2009 compared to 43.5% in the third quarter of 2008, with the decline resulting primarily from the stronger U.S. dollar.

The Outdoor Group generated revenue of \$114.8 million for the third quarter of 2009, an \$8.3 million decrease from the third quarter of 2008. The Merrell® brand's revenue in the third quarter of 2009 decreased at a high single-digit rate compared to the third quarter of 2008, due to the strengthening of the U.S. dollar and soft retail conditions in many of the brand's major markets. Patagonia® Footwear's revenue decreased at a rate in the mid teens in the third quarter of 2009 compared to the third quarter of 2008, due primarily to tough economic conditions. Revenue from the recently acquired Chaco® brand contributed to the group's overall revenue performance in the quarter.

The Heritage Brands Group had revenue of \$55.3 million in the third quarter of 2009, a \$9.2 million decrease compared to the third quarter of 2008. Cat® Footwear's revenue in the third quarter of 2009 decreased at a rate in the low teens compared to the prior year, reflecting the impact of the stronger U.S. dollar on the brand's extensive international operations as well as negative economic conditions in most of its major markets. Harley-Davidson® Footwear's revenue declined in the third quarter of 2009 at a mid twenties rate compared to the third quarter of 2008 due primarily to soft retail conditions. The Sebago® brand's revenue also declined in the third quarter at a rate in the low teens due to weaker consumer spending and the stronger U.S. dollar.

The Wolverine Footwear Group recorded \$53.4 million in revenue for the third quarter of 2009, a \$6.0 million decrease from the third quarter of 2008. Revenue for the Wolverine® brand declined at a rate in the mid-single digits over the prior year due to negative economic conditions in the U.S. work sector. Revenue from the Bates® footwear business in the third quarter of 2009 declined from the third quarter of 2008 at a rate in the mid-single digits as a result of the earlier timing of shipments to the U.S. military. HyTest®'s revenue for the third quarter of 2009 declined at a rate in the low forties from the third quarter of 2008 due to continued difficulties in the U.S. manufacturing sector and related workforce reductions, resulting in decreased demand for safety footwear products.

The Hush Puppies Company recorded revenue of \$36.4 million in the third quarter of 2009, a \$6.0 million decrease from the third quarter of 2008. Hush Puppies® revenue in the third quarter of 2009 decreased at a rate in the mid teens due primarily to customer bankruptcies, consolidations of key retailers caused by weaker consumer spending and the strengthening of the U.S. dollar compared to the third quarter of 2008. Soft Style® experienced a revenue decline at a

rate in the mid-twenties in the third quarter as a result of a weak retail environment and a reduction in shipments driven by production delays from third party factories. Revenue generated by the recently acquired Cushe™ brand partially offset these revenue declines, with a very modest contribution to the unit s revenue for the third quarter of 2009.

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Within the Company's other business units, Wolverine Retail's revenue increased in the third quarter of 2009 at a rate in the mid teens compared to the third quarter of 2008. Wolverine Retail operated 94 retail stores worldwide at the end of the third quarter of 2009 compared to 90 at the end of the third quarter of 2008. The increase in revenue is due to the increase in the number of stores, increased eCommerce business, and increases in comparable stores sales performance. Wolverine Leathers revenue decreased at a rate in the high forties in the third quarter of 2009 compared to the third quarter of 2008 due to a decline in demand for its proprietary products and a significant decline in the market price for finished leather.

**GROSS MARGIN**

The gross margin for the third quarter of 2009 of 39.7% was 70 basis points lower than the gross margin for the third quarter of 2008. Non-recurring restructuring and other transition costs of \$1.3 million included in cost of products sold in the third quarter of 2009 accounts for 50 basis points of the decrease. The remainder of the decrease resulted from increases in product costs and the impact of translating foreign currencies to the U.S. dollar.

**OPERATING EXPENSES**

Operating expenses of \$77.8 million for the third quarter of 2009 decreased \$4.6 million from \$82.4 million for the third quarter of 2008. The decrease was related to lower general and administrative costs resulting from the Company's restructuring and cost-savings initiatives of \$3.9 million, the impact of a stronger U.S. dollar of \$2.1 million, and decreases in variable operating expenses (such as selling commissions and distribution costs). These decreases were partially offset by non-recurring restructuring and other transition costs of \$3.8 million, operating expenses associated with recently acquired brands of \$0.8 million, and increased pension expense of \$2.0 million.

**INTEREST, OTHER AND TAXES**

The decrease in net interest expense reflected lower outstanding debt as a result of the repayment in full of the Company's senior notes during the fourth quarter of 2008 and lower average balances outstanding on the Company's revolving line of credit.

The decrease in other (income) expense resulted primarily from the change in realized gains or losses on foreign denominated assets and liabilities.

The Company's effective tax rate for the third quarter of 2009 was 26.6% compared to 33.5% for the third quarter of 2008. The reduced rate reflects a higher portion of earnings from foreign jurisdictions with lower tax rates, tax benefits from the strategic restructuring plan, the extension of the Federal research and development tax credit by the U.S. Congress in the fourth quarter of 2008, and the current year-to-date benefits from new tax planning strategies, related primarily to the Company's international operations. The Company estimates the full year effective tax rate for 2009 to be approximately 29.0%, which is lower than the previous estimate of 32.3%, due to the implementation of tax planning strategies, related primarily to the Company's international operations.

**NET EARNINGS AND EARNINGS PER SHARE**

As a result of the revenue, gross margin and expense changes discussed above, the Company had net earnings of \$26.8 million for the third quarter of 2009, compared to \$31.2 million in the third quarter of 2008, a decrease of \$4.4 million.

Diluted net earnings per share decreased 12.9% in the third quarter of 2009 to \$0.54 from \$0.62 in the third quarter of 2008. The decrease attributable to lower net earnings is partially offset by fewer average shares outstanding in the third quarter of 2009 compared to the third quarter of 2008 as a result of repurchases of the Company's common stock over the prior twelve months.

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**RESULTS OF OPERATIONS FIRST THREE QUARTERS OF 2009 COMPARED TO FIRST THREE QUARTERS OF 2008**  
**FINANCIAL SUMMARY FIRST THREE QUARTERS OF 2009 VERSUS FIRST THREE QUARTERS OF 2008**

|   | 2009     |              | 2008     |              | Change    |         |
|---|----------|--------------|----------|--------------|-----------|---------|
|   | \$       | % of Total   | \$       | % of Total   | \$        | %       |
| <i>(Millions of dollars, except per share data)</i> |          |              |          |              |           |         |
| Revenue   |          |              |          |              |           |         |
| Branded footwear, apparel and licensing             | \$ 716.0 | 90.8%        | \$ 796.1 | 91.0%        | \$ (80.1) | (10.1%) |
| Other business units                                | 72.5     | 9.2%         | 78.4     | 9.0%         | (5.9)     | (7.5%)  |
| Total Revenue                                       | \$ 788.5 | 100.0%       | \$ 874.5 | 100.0%       | \$ (86.0) | (9.8%)  |
|   | \$       | % of Revenue | \$       | % of Revenue | \$        | %       |
| Gross profit  |          |              |          |              |           |         |
| Branded footwear, apparel and licensing             | \$ 283.5 | 39.6%        | \$ 326.3 | 41.0%        | \$ (42.8) | (13.1%) |
| Other business units                                | 25.4     | 35.0%        | 26.4     | 33.7%        | (1.0)     | (3.8%)  |
| Total Gross Profit                                  | \$ 308.9 | 39.2%        | \$ 352.7 | 40.3%        | \$ (43.8) | (12.4%) |
| Selling, general and administrative expenses        | \$ 222.2 | 28.2%        | \$ 244.2 | 27.9%        | \$ (22.0) | (9.0%)  |
| Restructuring and other transition costs            | 22.8     | 2.9%         |          | 0.0%         | 22.8      | 100.0%  |
| Operating Expenses                                  | \$ 245.0 | 31.1%        | \$ 244.2 | 27.9%        | \$ 0.8    | 0.3%    |
| Interest (income) expense net                       | \$ 0.2   | 0.0%         | \$ 0.7   | 0.1%         | \$ (0.5)  | 66.9%   |
| Other expense net                                   | 0.0      | 0.0%         | 0.0      | 0.0%         | 0.0       | nm      |
| Earnings before income taxes                        | \$ 63.7  | 8.1%         | \$ 107.8 | 12.3%        | \$ (44.1) | (41.0%) |
| Net Earnings  | \$ 45.2  | 5.7%         | \$ 71.7  | 8.2%         | \$ (26.5) | (37.0%) |
| Diluted net earnings per share                      | \$ 0.91  |              | \$ 1.41  |              | \$ (0.50) | (35.5%) |

The following is supplemental information on total revenue:

**Total Revenue First Three Quarters**

|                              | 2009     |            | 2008     |            | Change    |         |
|------------------------------|----------|------------|----------|------------|-----------|---------|
|                              | \$       | % of Total | \$       | % of Total | \$        | %       |
| <i>(Millions of dollars)</i> |          |            |          |            |           |         |
| Outdoor Group                | \$ 305.8 | 38.8%      | \$ 318.0 | 36.4%      | \$ (12.2) | (3.8%)  |
| Wolverine Footwear Group     | 156.5    | 19.8%      | 177.7    | 20.3%      | (21.2)    | (12.0%) |
| Heritage Brands Group        | 146.5    | 18.6%      | 174.1    | 19.9%      | (27.6)    | (15.8%) |
| The Hush Puppies Company     | 98.2     | 12.5%      | 117.5    | 13.4%      | (19.3)    | (16.4%) |
| Other                        | 9.0      | 1.1%       | 8.8      | 1.0%       | 0.2       | 2.8%    |

|  |                 |               |          |        |           |         |
|--|-----------------|---------------|----------|--------|-----------|---------|
| Total branded footwear,<br>apparel and licensing revenue | \$ <b>716.0</b> | <b>90.8%</b>  | \$ 796.1 | 91.0%  | \$ (80.1) | (10.1%) |
| Other business units                                     | <b>72.5</b>     | <b>9.2%</b>   | 78.4     | 9.0%   | (5.9)     | (7.5%)  |
| Total revenue  | \$ <b>788.5</b> | <b>100.0%</b> | \$ 874.5 | 100.0% | \$ (86.0) | (9.8%)  |

**Table of Contents****REVENUE**

Revenue for the first three quarters for 2009 decreased \$86.0 million from the first three quarters of 2008 to \$788.5 million. The impact of translating foreign-denominated revenue to U.S. dollars decreased revenue by \$40.8 million. Declines in unit volume for the branded footwear, apparel and licensing operations, partially offset by price increases for selected brands caused revenue to decrease \$39.3 million. Revenue from the other business units decreased \$5.9 million. International revenue represented 39.6% of total revenue for the 36 weeks ended September 12, 2009 compared to 42.2% for the 36 weeks ended September 6, 2008, with the decline resulting primarily from the stronger U.S. dollar.

The Outdoor Group recorded revenue of \$305.8 million for the first three quarters of 2009, a \$12.2 million decrease over the first three quarters of the prior year. The Merrell® brand's revenue decreased at a high single-digit rate compared to the first three quarters of 2008, primarily as a result of the strengthening of the U.S. dollar and soft retail conditions in many of the brand's major markets. This decline was partially offset by Patagonia® Footwear's low single-digit revenue increase and revenue from the recently acquired Chaco® brand.

The Wolverine Footwear Group generated revenue of \$156.5 million during the first three quarters of 2009, a \$21.2 million decrease from the first three quarters of 2008. The Wolverine® brand realized a mid single-digit decrease in revenue during the first three quarters of 2009 compared to the first three quarters of 2008 due primarily to a challenging retail environment. The Bates® uniform footwear business realized a decrease in revenue at a rate in the mid teens due primarily to planned reduction in purchases by the U.S. Department of Defense. HyTest®'s revenue declined at a rate in the low thirties due to negative economic conditions in the U.S. market and related workforce reductions, resulting in decreased demand for safety footwear products.

The Heritage Brands Group recorded revenue of \$146.5 million for the first three quarters of 2009, a \$27.6 million decrease over the first three quarters of the prior year. Cat® Footwear's revenue decreased at a rate in the high teens compared to the first three quarters of 2008, reflecting the impact of the stronger U.S. dollar on the reported results of the brand's extensive international operations. Harley-Davidson® Footwear revenue decreased at rate in the low teens due primarily to a weak retail environment and the continued impact of the modification of the brand's distribution strategy in the U.S. market that started in 2008. The Sebago® brand experienced a decline in revenue at a rate in the mid teens for the first three quarters of 2009, compared to the first three quarters of 2008, as a result of tough economic conditions in many of the brand's most important markets and the stronger U.S. dollar.

The Hush Puppies Company recorded revenue of \$98.2 million in the first three quarters of 2009, a \$19.3 million decrease from the first three quarters of 2008. Hush Puppies® revenue decreased at a rate in the mid teens due primarily to customer bankruptcies, consolidations of key retailers caused by weaker consumer spending, and the strengthening of the U.S. dollar compared to the first three quarters of 2008. The Soft Style® brand experienced a decline in revenue at a rate in the high twenties as a result of a weak retail environment and production delays at third-party factories. Revenue generated by the recently acquired Cushe™ brand partially offset these revenue declines with its contribution to the group's revenue for the first three quarters of 2009.

Within the Company's other business units, Wolverine Retail's revenue increased in the first three quarters of 2009 at a mid single-digit rate compared to the first three quarters of 2008. Wolverine Retail operated 94 retail stores worldwide at the end of the third quarter of 2009 compared to 90 at the end of the third quarter of 2008. The increase in revenue is due to the increase in the number of stores and increases in eCommerce business. Revenue from the Wolverine® Leathers operation decreased at a rate in the mid twenties in the first three quarters of 2009 as compared to the first three quarters of 2008 due to a decline in demand for its proprietary products and a significant decline in the market price for finished leather.

**GROSS MARGIN**

The gross margin for the first three quarters of 2009 was 39.2%, a 110 basis point decrease from the first three quarters of 2008. Non-recurring restructuring and other transition costs of \$4.6 million included in cost of products sold in the first three quarters of 2009 accounted for 60 basis points of the decline, with the remainder of the decrease resulting from expected increases in product and freight costs, increased sales of lower margin product during the first three quarters of 2009 and the impact of translating foreign currencies.





**Table of Contents****OPERATING EXPENSES**

Operating expenses of \$245.0 million for the first three quarters of 2009 increased \$0.8 million from \$244.2 million for the first three quarters of 2008. The increase was related to non-recurring restructuring and other transition costs of \$22.8 million, operating expenses associated with recently acquired brands of \$5.5 million, and increased pension expense of \$6.0 million. These increases were offset by the impact of foreign exchange of \$9.9 million, lower general and administrative costs as a result of the Company's restructuring and cost-savings initiatives, as well as significant decreases in certain operating expenses that vary with revenue, such as selling commissions and distribution costs.

**INTEREST, OTHER & TAXES**

The decrease in net interest expense reflected lower outstanding debt as a result of the repayment in full of the Company's senior notes during the fourth quarter of 2008 and lower average balances outstanding on the Company's revolving line of credit.

The decrease in other expense is primarily related to the change in realized gains or losses on foreign denominated assets and liabilities.

The Company's effective tax rate for the first three quarters of 2009 was 29.0% compared to 33.5% for the first three quarters of 2008. The reduced rate reflects a higher portion of earnings from foreign jurisdictions with lower tax rates, tax benefits from the strategic restructuring plan, the extension of the Federal research and development tax credit by the U.S. Congress in the fourth quarter of 2008, and the cumulative year-to-date benefits from new tax planning strategies, related primarily to the Company's international operations. The Company estimates the full year effective tax rate for 2009 to be approximately 29.0%, which is lower than the previous estimate of 32.3%, due to the implementation of tax planning strategies, related primarily to the Company's international operations.

**NET EARNINGS AND EARNINGS PER SHARE**

As a result of the revenue, gross margin and expense changes discussed above, the Company had net earnings of \$45.2 million for the first three quarters of 2009, compared to \$71.7 million in the first three quarters of 2008, a decrease of \$26.5 million.

Diluted net earnings per share decreased 35.5% in the first three quarters of 2009 to \$0.91 from \$1.41 in the first three quarters of 2008. The decrease is attributable to lower net earnings and was partially offset by fewer average shares outstanding in the first three quarters of 2009 compared to the first three quarters of 2008, due to repurchases of the Company's common stock.

**LIQUIDITY AND CAPITAL RESOURCES**

|  | <b>September<br/>12,<br/>2009</b> | January 3,<br>2009 | September<br>6,<br>2008 | Change from<br>September |            |
|--|-----------------------------------|--------------------|-------------------------|--------------------------|------------|
| <i>(Millions of dollars)</i>               |                                   |                    |                         | January 3,<br>2009       | 6,<br>2008 |
| Cash and cash equivalents                  | \$ 78.5                           | \$ 89.5            | \$ 74.3                 | \$ (11.0)                | \$ 4.2     |
| Accounts receivable                        | 223.5                             | 167.9              | 240.5                   | 55.6                     | (17.0)     |
| Inventories                                | 184.0                             | 196.8              | 194.1                   | (12.8)                   | (10.1)     |
| Accounts payable                           | 42.0                              | 45.3               | 54.3                    | (3.3)                    | (12.3)     |
| Accrued salaries and wages                 | 21.0                              | 22.7               | 17.2                    | (1.7)                    | 3.8        |
| Accrued pension liabilities                | 2.0                               | 28.1               | 1.8                     | (26.1)                   | 0.2        |
| Restructuring reserve                      | 4.8                               |                    |                         | 4.8                      | 4.8        |
| Other accrued liabilities                  | 78.6                              | 35.7               | 69.0                    | 42.9                     | 9.6        |
| Debt                                       | 11.6                              | 59.5               | 81.6                    | (47.9)                   | (70.0)     |
| Cash provided by operating activities      | \$ 71.1                           |                    | \$ 29.4                 |                          | \$ 41.7    |
| Additions to property, plant and equipment | 7.4                               |                    | 12.6                    |                          | (5.2)      |
| Depreciation and amortization              | 13.0                              |                    | 14.0                    |                          | (1.0)      |

Accounts receivable decreased 7.1% compared to the third quarter of 2008 due in part to a 10.1% decrease in revenue. No single customer accounted for more than 10% of the outstanding accounts receivable balance at September 12, 2009. Inventory levels decreased 5.2% from the same quarter last year. The decrease in inventory levels was primarily driven by the Company's efforts to realize meaningful reductions in inventory without negatively impacting gross margin.

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The decrease in accounts payable in the third quarter of 2009 compared to the third quarter of 2008 was primarily attributable to decreases in inventory purchases from contract suppliers as a result of the inventory pre-buys in the fourth quarter of 2008 and inventory reduction plans.

The restructuring reserve in connection with the strategic restructuring plan implemented by the Company in January 2009 is comprised primarily of severance and employee-related costs.

The majority of capital expenditures in the quarter were for information system enhancements, manufacturing equipment and building improvements. The Company leases machinery, equipment and certain warehouse, office and retail store space under operating lease agreements that expire at various dates through 2023.

The Company has a revolving credit agreement that expires in July 2010 and allows for borrowings of a maximum of \$150.0 million. The revolving credit facility is used to support working capital requirements and other business needs. The amounts outstanding under the revolving credit facility were \$9.9 million and \$70.9 million at September 12, 2009 and September 6, 2008, respectively. The Company considers these balances to be short-term in nature. The Company was in compliance with all debt covenant requirements at September 12, 2009 and September 6, 2008. Proceeds from the existing credit facility along with cash flows from operations are expected to be sufficient to meet capital needs in the foreseeable future. Any excess cash flows from operating activities are expected to be used to purchase property, plant and equipment, pay down existing debt, fund internal and external growth initiatives, pay dividends or repurchase the Company's common stock.

The decrease in debt at September 12, 2009 as compared to September 6, 2008 was primarily due to the final payment of the Company's senior notes in the fourth quarter of 2008. The Company had commercial letter-of-credit facilities outstanding of \$0.2 million and \$1.4 million at September 12, 2009 and September 6, 2008, respectively. The total debt to total capital ratio for the Company was 2.4% at the end of the third quarter of 2009, 15.0% at the end of the third quarter of 2008 and 12.2% at the end of fiscal year 2008.

The Company's Board of Directors approved a common stock repurchase program on April 19, 2007. The program authorized the repurchase of 7.0 million shares of common stock over a 36-month period beginning on the effective date of the program. The Company repurchased 406,200 shares at an average price of \$13.77 per share during the first quarter of 2009 under the program. No shares were repurchased in the second or third quarters of 2009. As of September 12, 2009, the Company was authorized to repurchase an additional 199,996 shares under the program. The primary purpose of the stock repurchase program is to increase stockholder value. The Company intends to continue to repurchase shares of its common stock in open market or privately negotiated transactions, from time to time, depending upon market conditions and other factors. Additional information about stock repurchases is included in Part II, Item 2 of this Form 10-Q.

The Company declared dividends of \$5.4 million in the third quarter of 2009, or \$0.11 per share. This is comparable to the \$0.11 per share declared in the third quarter of 2008. The quarterly dividend is payable on November 2, 2009 to stockholders of record on October 1, 2009.

### **CRITICAL ACCOUNTING POLICIES**

The preparation of the Company's consolidated condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Historically, actual results have not been materially different from the Company's estimates. However, actual results may differ from these estimates under different assumptions or conditions.

The Company has identified the critical accounting policies used in determining estimates and assumptions in the amounts reported in its Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the fiscal year ended January 3, 2009. Management believes there have been no changes in those critical accounting policies.



**Table of Contents****ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

The information concerning quantitative and qualitative disclosures about market risk contained in the Company's Annual Report on Form 10-K for its fiscal year ended January 3, 2009, is incorporated herein by reference.

The Company faces market risk to the extent that changes in foreign currency exchange rates affect the Company's foreign assets, liabilities, and inventory purchase commitments and to the extent that its long-term debt requirements are affected by changes in interest rates. The Company manages these risks by attempting to denominate contractual and other foreign arrangements in U.S. dollars. The Company does not believe that there has been a material change in the nature of the Company's primary market risk exposures, including the categories of market risk to which the Company is exposed and the particular markets that present the primary risk of loss to the Company. As of the date of this Quarterly Report on Form 10-Q, the Company does not know of or expect there to be any material change in the general nature of its primary market risk exposure in the near term.

Under the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FASB ASC Topic 815), as amended by SFAS Nos. 137, 138 and 161, the Company is required to recognize all derivatives on the balance sheet at fair value. Derivatives that are not qualifying hedges must be adjusted to fair value through earnings. If a derivative is a qualifying hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive income until the hedged item is recognized in earnings.

The Company conducts wholesale operations outside of the United States in the United Kingdom, continental Europe and Canada, where the functional currencies are primarily the British pound, euro and Canadian dollar, respectively. The Company utilizes foreign currency forward exchange contracts to manage the volatility associated with inventory purchases made by non-U.S. wholesale operations in U.S. dollars in the normal course of business. At September 12, 2009 and September 6, 2008, the Company had outstanding forward currency exchange contracts to purchase \$55.4 million and \$47.6 million, respectively, of U.S. dollars with maturities ranging up to 308 days. The increase in outstanding forward currency exchange contracts reflects a change in the Company's hedging policy, which was extended from 9 months to 12 months to better reflect the length of the buying cycle.

The Company also has production facilities in the Dominican Republic and sourcing locations in Asia, where financial statements reflect the U.S. dollar as the functional currency. However, operating costs are paid in the local currency. Royalty revenue generated by the Company from third-party foreign licensees is calculated in the licensees' local currencies, but paid in U.S. dollars. Accordingly, the Company is subject to related foreign currency remeasurement gains and losses in 2009 and beyond.

Assets and liabilities outside the United States are primarily located in the United Kingdom, Canada and the Netherlands. The Company's investments in foreign subsidiaries with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, the Company does not hedge these net investments. For the quarter ended September 12, 2009, the strengthening of the U.S. dollar compared to foreign currencies decreased the value of these investments in net assets by \$6.8 million. For the quarter ended September 6, 2008, the weakening of the U.S. dollar compared to foreign currencies increased the value of these investments in net assets by \$14.1 million. These changes resulted in cumulative foreign currency translation adjustments at September 12, 2009 and September 6, 2008 of \$16.7 million and \$20.0 million, respectively, that are deferred and recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Because the Company markets, sells and licenses its products throughout the world, it is affected by weak economic conditions in foreign markets that could reduce demand for its products.

The Company is exposed to changes in interest rates primarily as a result of its revolving credit agreement. The Company has not historically utilized interest rate swaps or similar hedging arrangements to fix interest rates; however, in 1998 the Company entered into an interest rate lock agreement to fix the interest rate prior to the issuance of 6.5% senior notes in the amount of \$75 million. The contract was settled in 1998 and resulted in a prepayment of interest of \$2.2 million that was amortized over the term of the senior notes. These notes were fully repaid during 2008 and, as such, there was no remaining unamortized balance at September 12, 2009. The amortization of the prepayment created an effective interest rate of 6.78% on the senior notes.

The Company does not enter into contracts for speculative or trading purposes, nor is it a party to any leveraged derivative instruments.

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**ITEM 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on and as of the time of such evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15(e), were effective as of the end of the period covered by this report. There have been no changes during the quarter ended September 12, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**  
**Issuer Purchases of Equity Securities**

| Period   | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total<br>Number<br>of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number<br>of Shares that<br>May<br>Yet Be<br>Purchased<br>Under the Plans<br>or<br>Programs |
|--|---|------------------------------------|---|--|
| Period 1 (June 21, 2009 to July 18, 2009)        |   |                                    |   |  |
| Common Stock Repurchase Program <sup>(1)</sup>   |   | \$                                 |   | 199,996  |
| Employee Transactions <sup>(2)</sup>             | 88  | 22.08                              |   |  |
| Period 2 (July 19, 2009 to August 15, 2009)      |   |                                    |   |  |
| Common Stock Repurchase Program <sup>(1)</sup>   |   |                                    |   | 199,996  |
| Employee Transactions <sup>(2)</sup>             | 5,930                                     | 23.30                              |   |  |
| Period 3 (August 16, 2009 to September 12, 2009) |   |                                    |   |  |
| Common Stock Repurchase Program <sup>(1)</sup>   |   |                                    |   | 199,996  |
| Employee Transactions <sup>(2)</sup>             |   |                                    |   |  |
| Total for Quarter ended September 12, 2009       |   |                                    |   |  |
| Common Stock Repurchase Program <sup>(1)</sup>   |   | \$                                 |   | 199,996  |
| Employee Transactions <sup>(2)</sup>             | 6,018                                     | 23.28                              |   |  |

The reported periods conform to the Company's fiscal calendar. The third quarter contained three 28-day periods.

(1) The Company's Board of Directors approved a common stock repurchase program on April 19, 2007. This program authorized the repurchase of 7.0 million shares of common stock over a 36-month period, commencing on the effective date of the



program.

- (2) Employee transactions include:
  - (a) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee stock options who exercised options and
  - (b) restricted shares withheld to offset tax withholding that occurs upon vesting of restricted shares. The Company's employee stock compensation plans provide that the value of the shares delivered or attested to, or withheld, shall be the closing price of the Company's common stock on the date the relevant transaction occurs.

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**ITEM 6. Exhibits**

The following documents are filed as exhibits to this report on Form 10-Q:

| Exhibit Number | Document  |
|----------------|---|
| 3.1            | Restated Certificate of Incorporation. Previously filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 30, 2006 filed on February 28, 2007. Here incorporated by reference. |
| 3.2            | Amended and Restated Bylaws. Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 15, 2008. Here incorporated by reference.   |
| 31.1           | Rule 13a-14(a)/15d-14(a) Certifications.  |
| 31.2           | Rule 13a-14(a)/15d-14(a) Certifications.  |
| 32             | Certification pursuant to 18 U.S.C. § 1350.   |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WOLVERINE WORLD WIDE, INC.  
AND SUBSIDIARIES

October 22, 2009 /s/ Blake W. Krueger  
Date Blake W. Krueger  
Chief Executive Officer and President  
(Duly Authorized Signatory for Registrant)

October 22, 2009 /s/ Donald T. Grimes  
Date Donald T. Grimes  
Senior Vice President, Chief Financial Officer  
and Treasurer  
(Principal Accounting Officer and Duly  
Authorized Signatory for Registrant)

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