TIMBERLAND CO
Form 10-Q
May 05, 2011

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

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

For the quarterly period ended April 1, 2011

OR

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

For the transition period from __________ to __________

Commission File Number 1-9548

The Timberland Company

(Exact name of registrant as specified in its charter)

Delaware	02-0312554
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Domain Drive, Stratham, New Hampshire	03885
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (603) 772-9500

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.

x Yes o 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes o 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 x	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

o Yes x No

On April 29, 2011, 41,200,824 shares of the registrant s Class A Common Stock were outstanding and 10,568,389 shares of the registrant s Class B Common Stock were outstanding.

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Cautionary Note Regarding Forward-Looking Statements

The Timberland Company (the Company) wishes to take advantage of The Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, which provide a safe harbor for certain written and oral forward-looking statements to encourage companies to provide prospective information. Statements containing the words may, assumes, forecasts, positions, predicts, strategy, will, expects, estimates, anticipate intends, plans, budgets, potential, continue, target, or words or phrases of similar meaning, and other st contained in this Quarterly Report regarding matters that are not historical facts are forward-looking statements. Prospective information is based on management s then current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions used in making such expectations or forecasts, may become inaccurate. The discussion in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2010 (the Form 10-K) and Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q identifies important factors that could affect the Company s actual results and could cause such results to differ materially from those contained in forward-looking statements made by or on behalf of the Company. The risks included in Part I, Item 1A, Risk Factors, of the Form 10-K and Part II, Item 1A of this Quarterly Report are not exhaustive. Other sections of the Form 10-K as well as this Quarterly Report may include additional factors which could adversely affect the Company s business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company s business or the extent to which any factor, or combination of factors, 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. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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Part I FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

THE TIMBERLAND COMPANY
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	April 1, 2011	December 31, 2010	April 2, 2010
Assets			
Current assets			
Cash and equivalents	$ 265,271	$ 272,221	$ 238,540
Accounts receivable, net of allowance for doubtful accounts of $11,591 at April 1, 2011, $10,859 at December 31, 2010 and $12,299 at April 2, 2010	178,492	188,336	157,615
Inventory	186,862	180,068	136,941
Prepaid expense	33,002	32,729	29,374
Prepaid income taxes	27,898	25,083	14,389
Deferred income taxes	21,195	22,562	24,448
Derivative assets	5	29	5,444
Total current assets	712,725	721,028	606,751
Property, plant and equipment, net	70,705	68,043	66,245
Deferred income taxes	10,395	15,594	15,379
Goodwill	38,958	38,958	44,353
Intangible assets, net	34,590	34,839	44,648
Other assets, net	17,048	13,897	13,652
Total assets	$ 884,421	$ 892,359	$ 791,028
Liabilities and Stockholders Equity			
Current liabilities			
Accounts payable	$ 67,493	$ 91,025	$ 44,265
Accrued expense			
Payroll and related	23,385	47,376	21,509
Other	67,940	80,675	66,913
Income taxes payable	15,757	25,760	20,279
Deferred income taxes	-	-	261
Derivative liabilities	4,416	1,690	60
Total current liabilities	178,991	246,526	153,287
Other long-term liabilities	34,699	34,322	37,796
Commitments and contingencies (See Note 12)			
Stockholders equity			

Preferred Stock, $.01 par value; 2,000,000 shares authorized; none issued	-	-	-
Class A Common Stock, $.01 par value (1 vote per share); 120,000,000 shares authorized; 76,806,880 shares issued at April 1, 2011, 75,543,672 shares issued at December 31, 2010 and 74,872,066 shares issued at April 2, 2010	768	756	749
Class B Common Stock, $.01 par value (10 votes per share); convertible into Class A shares on a one-for-one basis; 20,000,000 shares authorized; 10,568,389 shares issued and outstanding at April 1, 2011, 10,568,389 shares issued and outstanding at December 31, 2010 and 10,889,160 shares issued and outstanding at April 2, 2010	106	106	109
Additional paid-in capital	319,394	280,154	268,982
Retained earnings	1,089,276	1,071,305	1,000,430
Accumulated other comprehensive income	9,450	6,671	11,572
Treasury Stock at cost; 35,630,635 Class A shares at April 1, 2011, 35,610,050 Class A shares at December 31, 2010 and 32,177,071 Class A shares at April 2, 2010	(748,263)	(747,481)	(681,897)
Total stockholders equity	670,731	611,511	599,945
Total liabilities and stockholders equity	$ 884,421	$ 892,359	$ 791,028

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

THE TIMBERLAND COMPANY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Thousands, Except Per Share Data)

	For the Quarter Ended	
	April 1, 2011	**April 2, 2010**
Revenue	$ 349,004	$ 317,042
Cost of goods sold	185,690	159,059
Gross profit	163,314	157,983
Operating expense		
Selling	103,076	92,696
General and administrative	32,353	25,899
Total operating expense	135,429	118,595
Operating income	27,885	39,388
Other income/(expense), net		
Interest income	131	74
Interest expense	(188)	(140)
Other, net	1,681	(133)
Total other income/(expense), net	1,624	(199)
Income before provision for income taxes	29,509	39,189
Provision for income taxes	11,538	13,442
Net income	$ 17,971	$ 25,747
Earnings per share		
Basic	$ .35	$ .48
Diluted	$ .35	$ .47
Weighted-average shares outstanding		
Basic	50,912	54,166
Diluted	52,004	54,643

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

THE TIMBERLAND COMPANY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	For the Quarter Ended April 1, 2011	April 2, 2010
Cash flows from operating activities:		
Net income	$ 17,971	$ 25,747
Adjustments to reconcile net income to net cash used by operating activities:		
Deferred income taxes	7,510	1,352
Share-based compensation	3,611	1,558
Depreciation and amortization	6,129	6,545
Provision for losses on accounts receivable	648	1,468
Excess tax benefit from share-based compensation	(4,198)	(55)
Unrealized (gain)/loss on derivatives	382	(163)
Other non-cash charges/(credits), net	53	(258)
Increase/(decrease) in cash from changes in operating assets and liabilities:		
Accounts receivable	11,638	(13,003)
Inventory	(7,165)	20,618
Prepaid expense and other assets	(1,808)	3,723
Accounts payable	(23,416)	(37,065)
Accrued expense	(37,054)	(34,145)
Prepaid income taxes	(2,815)	(2,596)
Income taxes payable	(6,661)	(325)
Other liabilities	837	284
Net cash used by operating activities	(34,338)	(26,315)
Cash flows from investing activities:		
Additions to property, plant and equipment	(8,653)	(2,818)
Other	662	23
Net cash used by investing activities	(7,991)	(2,795)
Cash flows from financing activities:		
Common stock repurchases	(915)	(19,512)
Issuance of common stock	31,399	719
Excess tax benefit from share-based compensation	4,198	303
Other	(785)	(451)
Net cash provided/(used) by financing activities	33,897	(18,941)
Effect of exchange rate changes on cash and equivalents	1,482	(3,248)

Net decrease in cash and equivalents		(6,950)		(51,299)
Cash and equivalents at beginning of period		272,221		289,839
Cash and equivalents at end of period	$	265,271	$	238,540
Supplemental disclosures of cash flow information:				
Interest paid	$	221	$	173
Income taxes paid	$	13,779	$	14,484
Non-cash investing activity (ERP system costs on account)	$	1,700	$	-

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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THE TIMBERLAND COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of The Timberland Company and its subsidiaries (we , our , us , its , Timberland or the Company). These unaudited condensed consolidated financia statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

The financial statements included in this Quarterly Report on Form 10-Q are unaudited, but in the opinion of management, such financial statements include the adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company s financial position, results of operations and changes in cash flows for the interim periods presented. The results reported in these financial statements are not necessarily indicative of the results that may be expected for the full year due, in part, to seasonal factors. Historically, our revenue has been more heavily weighted to the second half of the year.

The Company s fiscal quarters end on the Friday closest to the day on which the calendar quarter ends, except that the fourth quarter and fiscal year end on December 31. The first quarters of our fiscal year in 2011 and 2010 ended on April 1, 2011 and April 2, 2010, respectively.

New Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units With Zero or Negative Carrying Amounts. This accounting standard update requires entities with a zero or negative carrying value to assess, considering adverse qualitative factors, whether it is more likely than not that a goodwill impairment exists. If an entity concludes that it is more likely than not that a goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. ASU No. 2010-28 is effective for impairment tests performed by the Company during 2011, and its adoption is not expected to have a material impact on the Company s results of operations or financial position.

Note 2. Fair Value Measurements

Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that ranks the quality and reliability of the information used to determine fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Company recognizes and reports significant transfers between Level 1 and Level 2, and into and out of Level 3, as of the actual date of the event or change in circumstances that caused the transfer.

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The following tables present information about our assets and liabilities measured at fair value on a recurring basis as of April 1, 2011, December 31, 2010, and April 2, 2010:

Description	**Level 1**	**Level 2**	**Level 3**	**Impact of Netting**	**April 1, 2011**
Assets:					
Cash equivalents:					
Time deposits	$ -	$90,000	$ -	$ -	$90,000
Mutual funds	$ -	$45,110	$ -	$ -	$45,110
Foreign exchange forward contracts:					
Derivative assets	$ -	$709	$ -	$(580)	$129
Cash surrender value of life insurance	$ -	$8,370	$ -	$ -	$8,370
Liabilities:					
Foreign exchange forward contracts:					
Derivative liabilities	$ -	$5,006	$ -	$(580)	$4,426

Description	**Level 1**	**Level 2**	**Level 3**	**Impact of Netting**	**December 31, 2010**
Assets:					
Cash equivalents					
Time deposits	$ -	$95,000	$ -	$ -	$95,000
Mutual funds	$ -	$13,202	$ -	$ -	$13,202
Foreign exchange forward contracts:					
Derivative assets	$ -	$1,801	$ -	$ (1,771)	$30
Cash surrender value of life insurance	$ -	$7,564	$ -	$ -	$7,564
Liabilities:					
Foreign exchange forward contracts:					
Derivative liabilities	$ -	$3,572	$ -	$(1,771)	$1,801

Description	**Level 1**	**Level 2**	**April 2, 2010**

			Level 3	**Impact of Netting**	
Assets:					
Cash equivalents:					
Time deposits	$ -	$65,006	$ -	$ -	$65,006
Mutual funds	$ -	$55,776	$ -	$ -	$55,776
Foreign exchange forward contracts:					
Derivative assets	$ -	$5,464	$ -	$(20)	$5,444
Cash surrender value of life insurance	$ -	$7,478	$ -	$ -	$7,478
Liabilities:					
Foreign exchange forward contracts:					
Derivative liabilities	$ -	$80	$ -	$(20)	$60

Cash equivalents, included in cash and equivalents on our unaudited condensed consolidated balance sheets, include money market mutual funds and time deposits placed with a variety of high credit quality financial institutions. Time deposits are valued based on current interest rates and mutual funds are valued at the net asset value of the fund. The carrying values of accounts receivable and accounts payable approximate their fair values due to their short-term maturities.

The fair value of the derivative contracts in the table above is reported on a gross basis by level based on the fair value hierarchy with a corresponding adjustment for netting for financial statement presentation purposes, where appropriate. The Company often enters into derivative contracts with a single counterparty and certain of these contracts are covered under a master netting agreement. The fair values of our foreign currency forward contracts are based on quoted market prices or pricing models using current market rates. As of April 1, 2011, the derivative contracts above include $124 of assets and $11 of liabilities included in other assets, net and other long-term liabilities, respectively, on our unaudited condensed consolidated balance sheet. As of December 31, 2010, the derivative contracts above include $1 of assets and $111 of liabilities included in other assets, net and other long-term liabilities, respectively, on our unaudited condensed consolidated balance sheet. There were no derivative contracts included in other assets, net or other long-term liabilities on our unaudited condensed consolidated balance sheet as of April 2, 2010.

The cash surrender value of life insurance represents insurance contracts held as assets in a rabbi trust to fund the Company s deferred compensation plan. These assets are included in other assets, net on our unaudited condensed consolidated balance sheets. The cash surrender value of life insurance is based on the net asset values of the underlying funds available to plan participants.

Note 3. Derivatives

In the normal course of business, the financial position and results of operations of the Company are impacted by currency rate movements in foreign currency denominated assets, liabilities and cash flows as we purchase and sell goods in local currencies. We have established policies and business practices that are intended to mitigate a portion of the effect of these exposures. We use derivative financial instruments, specifically forward contracts, to manage our currency exposures. These derivative instruments are viewed as risk management tools and are not used for trading or speculative purposes. Derivatives entered into by the Company are either designated as cash flow hedges of forecasted foreign currency transactions or are undesignated economic hedges of existing intercompany assets and liabilities, certain third party assets and liabilities, and non-US dollar-denominated cash balances.

Derivative instruments expose us to credit and market risk. The market risk associated with these instruments resulting from currency exchange movements is expected to offset the market risk of the underlying transactions being hedged. We do not believe there is a significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a group of major financial institutions and have varying maturities through July 2012. As a matter of policy, we enter into these contracts only with counterparties having a minimum investment-grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Cash Flow Hedges

The Company principally uses foreign currency forward contracts as cash flow hedges to offset a portion of the effects of exchange rate fluctuations on certain of its forecasted foreign currency denominated sales transactions. The Company s cash flow exposures include anticipated foreign currency transactions, such as foreign currency denominated sales, costs, expenses and inter-company charges, as well as collections and payments. The risk in these exposures is the potential for losses associated with the remeasurement of non-functional currency cash flows into the functional currency. The Company has a hedging program to aid in mitigating its foreign currency exposures and to decrease the volatility in earnings. Under this hedging program, the Company performs a quarterly assessment of the effectiveness of the hedge relationship and measures and recognizes any hedge ineffectiveness in earnings. A hedge is effective if the changes in the fair value of the derivative provide offset of at least 80 percent and not more than 125 percent of the changes in the fair value or cash flows of the hedged item attributable to the risk being hedged. The Company uses regression analysis to assess the effectiveness of a hedge relationship.

Forward contracts designated as cash flow hedging instruments are recorded in our unaudited condensed consolidated balance sheets at fair value. The effective portion of gains and losses resulting from changes in the fair value of these hedge instruments are deferred in accumulated other comprehensive income (OCI) and reclassified to earnings, in cost of goods sold, in the period that the hedged transaction is recognized in earnings. Cash flows associated with these contracts are classified as operating cash flows in the unaudited condensed consolidated statements of cash flows. Hedge ineffectiveness is evaluated using the hypothetical derivative method, and the ineffective portion of the hedge is reported in our unaudited condensed consolidated statements of operations in other, net. The amount of hedge ineffectiveness reported in other, net for the quarters ended April 1, 2011 and April 2, 2010 was not material.

The notional value of foreign currency forward sell contracts entered into as cash flow hedges is as follows:

	Notional Amount		
Currency	April 1, 2011	December 31, 2010	April 2, 2010
Pound Sterling	$ 23,509	$ 23,536	$ 22,093
Euro	78,219	88,414	64,743
Japanese Yen	26,045	22,817	17,075
Total	$ 127,773	$ 134,767	$ 103,911
Latest Maturity Date	July 2012	January 2012	January 2011

Other Derivative Contracts

We also enter into derivative contracts to manage foreign currency exchange risk on intercompany accounts receivable and payable, third-party accounts receivable and payable, and non-U.S. dollar-denominated cash balances using forward contracts. These forward contracts, which are undesignated hedges of economic risk, are recorded at fair value on the unaudited condensed consolidated balance sheets, with changes in the fair value of these instruments recognized in earnings immediately. The gains or losses related to the contracts largely offset the remeasurement of those assets and liabilities. Cash flows associated with these contracts are classified as operating cash flows in the unaudited condensed consolidated statements of cash flows.

The notional value of foreign currency forward (buy) and sell contracts entered into to mitigate the foreign currency risk associated with certain balance sheet items is as follows (the contract amount represents the net amount of all purchase and sale contracts of a foreign currency):

	Notional Amount		
Currency	April 1, 2011	December 31, 2010	April 2, 2010
Pound Sterling	$ 13,738	$ 9,312	$ (18,873)
Euro	12,377	8,913	11,310
Japanese Yen	20,294	28,680	11,721
Canadian Dollar	4,661	6,013	6,439
Norwegian Kroner	3,769	2,219	4,779
Swedish Krona	3,128	2,601	2,779
Total	$ 57,967	$ 57,738	$ 18,155

Sell Contracts	$ 69,789	$ 71,799	$ 48,645
Buy Contracts	(11,822)	(14,061)	(30,490)
Total Contracts	$ 57,967	$ 57,738	$ 18,155
Latest Maturity Date	July 2011	April 2011	July 2010

Fair Value of Derivative Instruments

The following table summarizes the fair values and presentation in the unaudited condensed consolidated balance sheets for derivative instruments, which consist of foreign exchange forward contracts, as of April 1, 2011, December 31, 2010 and April 2, 2010:

	Asset Derivatives			Liability Derivatives		
Balance Sheet Location	**April 1, 2011**	**December 31, 2010**	**April 2, 2010**	**April 1, 2011**	**December 31, 2010**	**April 2, 2010**
Derivatives designated as hedge instruments:						
Derivative assets	$ -	$ -	$5,246	$ -	$ -	$ 20
Derivative liabilities	443	1,693	-	4,500	3,284	7
Other assets, net	158	6	-	33	5	-
Other long-term liabilities	-	67	-	11	178	-
	$601	$ 1,766	$5,246	$4,544	$ 3,467	$ 27
Derivatives not designated as hedge instruments:						
Derivative assets	$ 5	$ 29	$ 218	$ -	$ -	$ -
Derivative liabilities	103	6	-	462	105	53
	$108	$ 35	$ 218	$ 462	$ 105	$ 53
Total derivatives	$709	$ 1,801	$5,464	$5,006	$ 3,572	$ 80

The Effect of Derivative Instruments on the Statements of Operations for the Quarters Ended April 1, 2011 and April 2, 2010

Derivatives in Cash Flow Hedging Relationships	**Amount of Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion) 2011**	**2010**	**Location of Gain/(Loss) Reclassified from Accumulated OCI into Income**	**Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2011**	**2010**

			(Effective Portion)		
Foreign exchange forward contracts	$(5,306)	$5,600[1]	Cost of goods sold	$(3,048)	$1,333

[1] Amount reported in the prior year of $4,958 was increased by $642 in the current year to $5,600. This amount represents the gain on derivatives recognized in other comprehensive income during the period and was changed to conform to the current period presentation.

The Company expects to reclassify pre-tax losses of $4,010 to the income statement within the next twelve months.

Derivatives not Designated as Hedging Instruments	Location of Gain/(Loss)Recognized In Income on Derivatives	Amount of Gain/(Loss) Recognized in Income on Derivatives 2011	2010
Foreign exchange forward contracts	Other, net	$ 45	$ (2,167)

Note 4. Share-Based Compensation

Share-based compensation costs were recorded in Cost of goods sold, Selling expense and General and administrative expense as follows for the quarters ended April 1, 2011 and April 2, 2010, respectively:

	For the Quarter Ended	
	April 1, 2011	April 2, 2010
Cost of goods sold	$ 57	$ 82
Selling expense	1,114	499
General and administrative expense	2,440	977
Total share-based compensation	$3,611	$ 1,558

Long Term Incentive Programs

2011 Executive Long Term Incentive Program

On March 2, 2011, the Management Development and Compensation Committee of the Board of Directors (the MDCC) approved the terms of The Timberland Company 2011 Executive Long Term Incentive Program (2011 LTIP) with respect to equity awards to be made to certain of the Company s executives and employees. On March 3, 2011, the Board of Directors also approved the 2011 LTIP with respect to the Company s Chief Executive Officer. The 2011 LTIP was established under the Company s 2007 Incentive Plan. The awards are subject to future performance, and consist of performance stock units (PSUs), equal in value to one share of the Company s Class A Common Stock, and performance stock options (PSOs), with an exercise price of $38.52 (the closing price of the Company s Class A Common Stock as quoted on the New York Stock Exchange on March 3, 2011, the date of grant). Shares with respect to the PSUs will be granted and will vest following the end of the applicable performance period and approval by the Board of Directors, or a committee thereof, of the achievement of the applicable performance metric. The PSOs will vest in three equal annual installments following the end of the applicable performance period and approval by the Board of Directors, or a committee thereof, of the achievement of the applicable performance metric. The payout of the performance awards will be based on the Company s achievement of certain levels of revenue growth and earnings before interest, taxes, depreciation and amortization (EBITDA), with threshold, target and maximum award levels based upon actual revenue growth and EBITDA of the Company during the applicable performance periods equaling or exceeding such levels. The performance period for the PSUs is the three-year period from January 1, 2011 through December 31, 2013, and the performance period for the PSOs is the twelve-month period from January 1, 2011 through December 31, 2011. No awards shall be made or earned, as the case may be, unless the threshold goal is attained, and the maximum payout may not exceed 200% of the target award.

The maximum number of shares to be awarded with respect to PSUs under the March 3, 2011 grants is 252,600, which, if earned, will be settled in early 2014. Based on current estimates of the performance metrics, unrecognized compensation expense with respect to the 2011 PSUs was $4,495 as of April 1, 2011. This expense is expected to be recognized over a weighted-average remaining period of 2.9 years.

The maximum number of shares subject to exercise with respect to PSOs under the March 3, 2011 grants is 344,200, which, if earned, will be settled, subject to the vesting schedule noted above, in early 2012. Based on current estimates of the performance metrics, unrecognized compensation expense related to the 2011 PSOs was $3,198 as of April 1, 2011. This expense is expected to be recognized over a weighted-average remaining period of 3.9 years.

2010 Executive Long Term Incentive Program

On March 3, 2010, the MDCC approved the terms of The Timberland Company 2010 Executive Long Term Incentive Program (2010 LTIP) with respect to equity awards to be made to certain of the Company s executives and employees. On March 4, 2010, the Board of Directors also approved the 2010 LTIP with respect to the Company s Chief Executive Officer.

The maximum number of shares to be awarded with respect to PSUs under the March 4, 2010 grants is 523,800, which, if earned, will be settled in early 2013. Based on current estimates of the performance metrics, unrecognized compensation expense with respect to the 2010 PSUs was $2,857 as of April 1, 2011. This expense is expected to be recognized over a weighted-average remaining period of 1.9 years.

Based on actual 2010 performance, the number of shares subject to exercise with respect to PSOs under the March 4, 2010 grants is 491,842, which shares were settled on March 3, 2011, subject to vesting in three equal annual installments.

2009 Executive Long Term Incentive Program

On March 4, 2009, the MDCC of the Board of Directors approved the terms of The Timberland Company 2009 Executive Long Term Incentive Program (2009 LTIP) with respect to equity awards to be made to certain of the Company s executives and employees. On March 5, 2009, the Board of Directors also approved the 2009 LTIP with respect to the Company s Chief Executive Officer.

The maximum number of shares to be awarded with respect to PSUs under the March 5, 2009 grants is 745,000, which, if earned, will be settled in early 2012. Based on current estimates of the performance metrics, unrecognized compensation expense with respect to the 2009 PSUs was $1,451 as of April 1, 2011. This expense is expected to be recognized over a weighted-average remaining period of 0.9 years.

The Company estimates the fair value of its PSOs on the date of grant using the Black-Scholes option valuation model, which employs the following assumptions:

	2011 LTIP For the Quarter Ended April 1, 2011	**2010 LTIP For the Quarter Ended April 2, 2010**
Expected volatility	49.3%	47.6%
Risk-free interest rate	2.4%	2.7%
Expected life (in years)	6.2	6.2
Expected dividends	-	-

The following summarizes activity associated with PSOs earned under the Company s 2009 and 2010 LTIP and excludes the performance-based awards noted above under the 2011 LTIP for which performance conditions have not been met:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	569,065	$ 9.50		
Settled	491,842	19.55		
Exercised	(35,708)	9.86		
Expired or forfeited	(3,974)	22.55		
Outstanding at April 1, 2011	1,021,225	$14.28	8.41	$29,144
Vested or expected to vest at April 1, 2011	942,022	$14.05	8.39	$27,102
Exercisable at April 1, 2011	153,967	$ 9.43	7.93	$ 5,142

Unrecognized compensation expense related to these PSOs was $3,243 as of April 1, 2011. This expense is expected to be recognized over a weighted-average remaining period of 1.9 years.

Other Long Term Incentive Programs

During 2010, the MDCC approved a program to award cash or equity awards based upon the achievement of certain project milestones. Awards will be granted upon approval of performance criteria achievement by a steering committee designated by the Board of Directors, and, if equity based, will vest immediately upon achievement of certain project milestones. The Company expects the milestones to be achieved at various stages through 2013. The maximum aggregate value which may be earned by current plan participants in the program is $2,660, and the number of equity awards to be issued, if applicable, will be determined based on the fair market value of the Company s Class A Common Stock on the date of issuance. Unrecognized compensation expense related to these awards was $1,491 as of April 1, 2011, and the expense is expected to be recognized over a weighted-average remaining period of 1.6 years.

Stock Options

The Company estimates the fair value of its stock option awards on the date of grant using the Black-Scholes option valuation model, which employs the assumptions noted in the following table, for stock option awards excluding awards issued under the Company s Long Term Incentive Programs discussed above:

	For the Quarter Ended	
	April 1, 2011	April 2, 2010
Expected volatility	51.0%	48.4%
Risk-free interest rate	2.1%	2.4%
Expected life (in years)	5.0	5.0
Expected dividends	-	-

The following summarizes transactions under stock option arrangements excluding awards under the 2009 and 2010 LTIP, which are summarized in the table above, and the performance-based awards under the 2011 LTIP noted above for which performance conditions have not been met:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	3,659,924	$25.29		
Granted	61,300	38.52		
Exercised	(1,187,883)	26.14		
Expired or forfeited	(19,437)	29.81		
Outstanding at April 1, 2011	2,513,904	$25.18	5.2	$44,336
Vested or expected to vest at April 1, 2011	2,472,410	$25.18	5.1	$43,614
Exercisable at April 1, 2011	2,082,723	$26.36	4.5	$34,290

Unrecognized compensation expense related to nonvested stock options was $2,396 as of April 1, 2011. This expense is expected to be recognized over a weighted-average remaining period of 1.6 years.

Nonvested Shares and Restricted Stock Units

There were 24,960 nonvested stock awards with a weighted-average grant date fair value of $9.34 outstanding on January 1, 2011. These awards vested in their entirety during the first quarter of 2011, and there is no unrecognized compensation expense associated with them.

Changes in the Company s restricted stock units, excluding awards under the Company s Long Term Incentive Programs discussed above, for the quarter ended April 1, 2011 are as follows:

	Stock Units	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2011	259,992	$18.27
Awarded	30,386	38.52
Vested	(39,617)	14.78
Forfeited	(967)	15.91
Nonvested at April 1, 2011	249,794	$21.30
Expected to vest at April 1, 2011	228,546	$20.88

Unrecognized compensation expense related to nonvested restricted stock units was $3,197 as of April 1, 2011 and the expense is expected to be recognized over a weighted-average remaining period of 1.6 years.

Note 5. Earnings Per Share (EPS)

Basic EPS excludes common stock equivalents and is computed by dividing net income by the weighted-average number of common shares outstanding for the periods presented. Diluted EPS reflects the potential dilution that would occur if potentially dilutive securities such as stock options were exercised and nonvested shares vested, to the extent such securities would not be anti-dilutive.

The following is a reconciliation of the number of shares (in thousands) for the basic and diluted EPS computations for the quarters ended April 1, 2011 and April 2, 2010:

	For the Quarter Ended					
	April 1, 2011			April 2, 2010		
	Net Income	Weighted-Average Shares	Per-Share Amount	Net Income	Weighted-Average Shares	Per-Share Amount
Basic EPS	$17,971	50,912	$.35	$25,747	54,166	$ .48
Effect of dilutive securities:						
Stock options and employee stock purchase plan shares	-	877	-	-	289	(.01)
Nonvested shares	-	215	-	-	188	-
Diluted EPS	$17,971	52,004	$.35	$25,747	54,643	$ .47

The following stock options and nonvested shares (in thousands) were outstanding as of April 1, 2011 and April 2, 2010, but were not included in the computation of diluted EPS as their inclusion would be anti-dilutive:

	For the Quarter Ended	
	April 1, 2011	April 2, 2010
Anti-dilutive securities	745	2,918

Note 6. Comprehensive Income

Comprehensive income for the quarters ended April 1, 2011 and April 2, 2010 is as follows:

	For the Quarter Ended	
	April 1, 2011	April 2, 2010
Net income	$17,971	$25,747
Change in cumulative translation adjustment	4,979	(7,478)
Change in fair value of cash flow hedges, net of taxes	(2,145)	4,054
Change in other adjustments, net of taxes	(55)	(52)
Comprehensive income	$20,750	$22,271

The components of accumulated other comprehensive income as of April 1, 2011, December 31, 2010 and April 2, 2010 were:

	April 1, 2011	December 31, 2010	April 2, 2010
Cumulative translation adjustment	$13,002	$8,023	$6,175
Fair value of cash flow hedges, net of taxes of $(197) at April 1, 2011, $(84) at December 31, 2010 and $261 at April 2, 2010	(3,736)	(1,591)	4,958

Other adjustments, net of taxes of $58 at April 1, 2011, $96 at December 31, 2010 and $99 at April 2, 2010	184	239	439
Total	$ 9,450	$6,671	$11,572

Note 7. Business Segments and Geographic Information

The Company has three reportable segments: North America, Europe and Asia. The composition of the segments is consistent with that used by the Company s chief operating decision maker.

The North America segment is comprised of the sale of products to wholesale and retail customers in North America. It includes Company-operated specialty and factory outlet stores in the United States and our United States e-commerce business. This segment also includes royalties from licensed products sold worldwide, the related management costs and expenses associated with our worldwide licensing efforts, and certain marketing expenses and value-added services.

The Europe and Asia segments each consist of the marketing, selling and distribution of footwear, apparel and accessories outside of the United States. Products are sold outside of the United States through our subsidiaries (which use wholesale, retail and e-commerce channels to sell footwear, apparel and accessories), franchisees and independent distributors.

Unallocated Corporate consists primarily of corporate finance, information services, legal and administrative expenses, share-based compensation costs, global marketing support expenses, worldwide product development costs and other costs incurred in support of Company-wide activities. Unallocated Corporate also includes certain value chain costs such as sourcing and logistics, as well as inventory variances. Additionally, Unallocated Corporate includes total other income/(expense), net, which is comprised of interest income, interest expense, and other, net, which includes foreign exchange gains and losses resulting from changes in the fair value of financial derivatives not designated as hedges, currency gains and losses incurred on the settlement of local currency denominated assets and liabilities, and other miscellaneous non-operating income/(expense). Such income/(expense) is not allocated among the reportable business segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate segment performance based on revenue and operating income. Total assets are disaggregated to the extent that assets apply specifically to a single segment. Unallocated Corporate assets primarily consist of cash and equivalents, tax assets, manufacturing/sourcing assets, computers and related equipment, and transportation equipment.

For the Quarters Ended April 1, 2011 and April 2, 2010

	North America	Europe	Asia	Unallocated Corporate	Consolidated
2011					
Revenue	$ 131,983	$165,705	$51,316	$ -	$ 349,004
Operating income/(loss)	21,287	28,882	8,246	(30,530)	27,885
Income/(loss) before income taxes	21,287	28,882	8,246	(28,906)	29,509
Total assets	242,468	323,758	81,112	237,083	884,421
Goodwill	31,964	6,994	-	-	38,958
2010					
Revenue	$ 121,858	$151,630	$43,554	$ -	$ 317,042

Operating income/(loss)	21,642	37,268	6,847	(26,369)	39,388
Income/(loss) before income taxes	21,642	37,268	6,847	(26,568)	39,189
Total assets	214,537	328,995	61,491	186,005	791,028
Goodwill	36,876	7,477	-	-	44,353

The following summarizes our revenue by product for the quarters ended April 1, 2011 and April 2, 2010:

	For the Quarter Ended	
	April 1, 2011	**April 2, 2010**
Footwear	$248,168	$225,561
Apparel and accessories	94,248	85,689
Royalty and other	6,588	5,792
Total	$349,004	$317,042

Note 8. Inventory
Inventory consists of the following:

	April 1, 2011	**December 31, 2010**	**April 2, 2010**
Materials	$ 11,024	$ 11,299	$ 8,442
Work-in-process	1,632	841	1,165
Finished goods	174,206	167,928	127,334
Total	$ 186,862	$ 180,068	$ 136,941

Note 9. Goodwill and Intangibles
A summary of goodwill activity follows:

		2011			**2010**	
	Gross	Accumulated Impairment	Net Book Value	Gross	Accumulated Impairment	Net Book Value
Balance at January 1	$44,353	$ (5,395)	$38,958	$44,353	$ -	$44,353
Impairment charges	-	-	-	-	-	-
Balance at end of period	$44,353	$ (5,395)	$38,958	$44,353	$ -	$44,353

Intangible assets consist of trademarks and other intangible assets. Other intangible assets consist of customer, patent and non-competition related intangible assets. Intangible assets consist of the following:

		April 1, 2011			**December 31, 2010**	
	Gross	**Accumulated Amortization**	**Net Book Value**	**Gross**	**Accumulated Amortization**	**Net Book Value**
Trademarks (indefinite-lived)	$32,442	$ -	$32,442	$32,402	$ -	$32,402
Trademarks (finite-lived)	3,619	(2,128)	1,491	4,064	(2,462)	1,602
Other intangible assets (finite-lived)	5,722	(5,065)	657	5,995	(5,160)	835
Total	$41,783	$ (7,193)	$34,590	$42,461	$ (7,622)	$34,839

Note 10. Income Taxes

We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period they occur. During the first quarter of 2011, the Company recorded a charge of approximately $2,250 to income tax expense related to certain prior year matters.

In December 2009, we received a Notice of Assessment from the Internal Revenue Department of Hong Kong for approximately $17,600 with respect to the tax years 2004 through 2008. In connection with the assessment, the

Company was required to make payments to the Internal Revenue Department of Hong Kong totaling approximately $8,400, of which approximately $900 was paid in the first quarter of 2010. These payments are included in prepaid taxes on our unaudited condensed consolidated balance sheet. We believe we have a sound defense to the proposed adjustment and will continue to firmly oppose the assessment. We believe that the assessment does not impact the level of liabilities for our income tax contingencies. However, actual resolution may differ from our current estimates, and such differences could have a material impact on our future effective tax rate and our results of operations.

Note 11. Stockholders Equity

On December 3, 2009, our Board of Directors approved the repurchase of up to 6,000,000 shares of our Class A Common Stock. There were no share repurchases made for the quarter ended April 1, 2011. As of April 1, 2011, 2,897,437 shares remained available for repurchase under the authorization.

From time to time, we use plans adopted under Rule 10b5-1 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, to facilitate share repurchases.

Note 12. Litigation

We are involved in various litigation and legal proceedings that have arisen in the ordinary course of business. Management believes that the ultimate resolution of any such matters will not have a material adverse effect on our consolidated financial statements.

Note 13. Subsequent Events

On April 26, 2011, we entered into a Third Amended and Restated Revolving Credit Agreement with a group of banks led by Bank of America, N.A. (the Agreement). The Agreement amends and restates in its entirety the Second Amended and Restated Revolving Credit Agreement dated as of June 2, 2006. The Agreement expires on April 26, 2016. The Agreement provides for $200 million of committed, unsecured borrowings, of which up to $125 million may be used for letters of credit. Upon the approval of the bank group, the Company may increase the committed borrowing limit by $100 million for a total commitment of $300 million. This facility may be used for working capital, share repurchases, acquisitions and other general corporate purposes. Under the terms of the Agreement, the Company may borrow at interest rates based on Eurodollar rates, plus an applicable margin of between 87.5 and 175.0 basis points based on a fixed charge coverage grid. In addition, the Company will pay a commitment fee of 12.5 to 25 basis points per annum on the total commitment, based on a fixed charge coverage grid that is adjusted quarterly. The financial covenants set forth in the Agreement relate to maintaining a minimum fixed charge coverage ratio of 2.25:1 and a leverage ratio of 2:1. The Company will measure compliance with the financial and non-financial covenants and ratios as required by the terms of the Agreement on a fiscal quarter basis. The Agreement also contains certain customary affirmative and negative covenants.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management s discussion and analysis of the financial condition and results of operations of The Timberland Company and its subsidiaries (we , our , us , its , Timberland or the Company), as well as our liquic capital resources. The discussion, including known trends and uncertainties identified by management, should be read in conjunction with the Company s unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Included herein are discussions and reconciliations of Total Company, Europe and Asia revenue changes to constant dollar revenue changes. Constant dollar revenue changes, which exclude the impact of changes in foreign exchange rates, are not Generally Accepted Accounting Principle ("GAAP) performance measures. The difference between changes in reported revenue (the most comparable GAAP measure) and constant dollar revenue changes is the impact of foreign currency exchange rate fluctuations. We calculate constant dollar revenue changes by recalculating current year revenue using the prior year s exchange rates and comparing it to the prior year revenue reported on a GAAP basis. We provide constant dollar revenue changes for Total

Company, Europe and Asia results because we use the measure to understand the underlying results and trends of the business segments excluding the impact of exchange rate changes that are not under management s direct control. The limitation of this measure is that it excludes exchange rate changes that have an impact on the Company s revenue. This limitation is best addressed by using constant dollar revenue changes in combination with revenue reported on a GAAP basis. We have a foreign exchange rate risk management program intended to minimize both the positive and negative effects of currency fluctuations on our reported consolidated results of operations, financial position and cash flows. The actions we take to mitigate foreign exchange risk are reflected in cost of goods sold and other, net.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to sales returns and allowances, realization of outstanding accounts receivable, derivatives, other contingencies, impairment of assets, incentive compensation accruals, share-based compensation and the provision for income taxes. We base our estimates 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 our estimates. Notwithstanding the foregoing, because of the uncertainty inherent in these matters, actual results could differ from the estimates used in, or that result from, applying our critical accounting policies. Our significant accounting policies are described in Note 1 to the Company s consolidated financial statements included in Part II, Item 8: Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the year ended December 31, 2010. Our estimates, assumptions and judgments involved in applying the critical accounting policies are described in Part II, Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2010.

Overview

Our principal strategic goal is to become the #1 Outdoor Brand on Earth by offering an integrated product selection that equips consumers to enjoy the experience of being in the outdoors. We sell our products to consumers who embrace an outdoor-inspired lifestyle through high-quality distribution channels, including our own retail stores, which reinforce the premium positioning of the Timberlandâ brand.

Our ongoing efforts to achieve this goal include (i) enhancing our leadership position in our core Timberland® footwear business through an increased focus on technological innovation and big idea initiatives like Earthkeepers, (ii) expanding our global apparel and accessories business by leveraging the brand s equity and initiatives through a combination of in-house development and licensing arrangements with trusted partners, (iii) expanding our brands geographically, (iv) driving operational and financial excellence, (v) setting the standard for social and environmental responsibility, and (vi) striving to be an employer of choice.

A summary of our first quarter of 2011 financial performance, compared to the first quarter of 2010, follows:

- First quarter revenue increased 10.1%, or 8.5% on a constant dollar basis, to $349.0 million.
- Gross margin decreased 300 basis points to 46.8%.
- Operating income was $27.9 million, compared to $39.4 million in the first quarter of 2010.
- Net income was $18.0 million, compared to $25.7 million in the first quarter of 2010.
- Diluted earnings per share decreased to $0.35 from $0.47.

Cash at the end of the quarter was $265.3 million with no debt outstanding.

We are undertaking a multi-year business system transformation initiative, pursuant to which we will develop and implement an integrated enterprise resource planning, or ERP, system to better support our business model and further streamline our operations. The Company incurred incremental expenses of approximately $1.0 million during the quarter ended April 1, 2011 related to this ERP implementation, as well as $3.1 million in capital spending, primarily related to software implementation and hardware.

Results of Operations for the Quarter Ended April 1, 2011 as Compared to the Quarter Ended April 2, 2010

Revenue

In the first quarter of 2011, our consolidated revenues grew 10.1% to $349.0 million, reflecting growth across North America, Europe and Asia and favorable foreign exchange rate impacts. We experienced strong growth in each of our core European markets with the exception of the U.K., which decreased compared to the prior year quarter. Taiwan, Hong Kong, and China drove the favorable year over year comparison in Asia, partially offset by declines in Japan. On a constant dollar basis, consolidated revenues increased 8.5%.

Products

By product group, our footwear revenues increased 10.0% to $248.2 million compared to the prior year period, and apparel and accessories revenues grew 10.0% to $94.2 million. Growth in footwear revenues was driven primarily by improved wholesale revenue results in Europe and North America, as well as benefits from foreign exchange. The improvement in apparel and accessories revenues compared to the prior year reflects apparel revenue growth in Asia, in our own stores and through our wholesale partners, as well as growth in accessories revenue in Europe and North America. Royalty and other revenue increased $0.8 million, or 13.7%, to $6.6 million compared to the prior year period.

Channels

Wholesale revenue was $252.0 million in the first quarter of 2011, an 8.6% increase compared to the prior year quarter. During the quarter, we saw strong growth in Europe and North America and flat performance in Asia. Retail revenues grew 14.0% to $97.0 million in the first quarter of 2011, driven by solid comparable store sales growth, the net addition of 8 stores and favorable foreign exchange rate impacts.

Comparable store sales were up 8.2% compared to the first quarter of 2010, reflecting strong growth in North America and Asia. Comparable store sales include revenues from Company-operated stores for which all of the following requirements have been met: the store has been open at least one year, square footage has not changed by more than 25% within the past year, and the store has not been permanently repositioned within the past year. Sales for stores that are closed for renovation or relocation are excluded from the comparable store calculation until such stores are reopened. Prior year foreign exchange rates are applied to both current year and prior year comparable store sales to achieve a consistent basis for comparison.

We had 229 Company-owned stores, shops and outlets worldwide at the end of the first quarter of 2011 compared to 221 at the end of the first quarter of 2010.

Gross Profit

Gross profit as a percentage of sales, or gross margin, was 46.8% for the first quarter of 2011, a 300 basis point decline compared to the first quarter of 2010. The decrease in gross margin reflects higher product costs associated with leather and non-leather materials, transportation and labor. The Company expects these costs to continue to adversely impact gross margin through 2011, although price increases will help to mitigate the impact of these costs in the second half of 2011.

Operating Expense

Operating expense for the first quarter of 2011 was $135.4 million, an increase of $16.8 million, or 14.2%, when compared to the first quarter of 2010. As a percentage of sales, operating expense was 38.8% compared to 37.4% in the prior year period. The increase reflects an increase of $10.4 million in selling expense and $6.4 million in general and administrative expense. Foreign exchange rate impacts increased selling and general and administrative expenses by approximately $2.2 million in the first quarter of 2011. Operating expense in the first quarter of 2010 included a $1.5 million gain related to the termination of a licensing agreement.

Selling expense was $103.1 million in the first quarter of 2011, an increase of 11.2% over the same period in 2010. The increase in selling expense reflects planned investments in retail and advertising, variable costs associated with strong revenue growth and higher incentive compensation costs.

We include the costs of physically managing inventory (warehousing and handling costs) in selling expense. These costs totaled $8.9 million and $8.4 million in the first quarters of 2011 and 2010, respectively.

In each of the first quarters of 2011 and 2010, we recorded $0.7 million of reimbursed shipping expenses within revenues and the related shipping costs within selling expense. Shipping costs are included in selling expense and were $5.4 million and $5.2 million for the quarters ended April 1, 2011 and April 2, 2010, respectively.

Advertising expense, which is included in selling expense, was $5.1 million and $3.9 million in the first quarters of 2011 and 2010, respectively. Advertising expense includes co-op advertising costs, consumer-facing advertising costs such as print, television and Internet campaigns, production costs including agency fees, and catalog costs. Advertising costs are expensed at the time the advertising is used, predominantly in the season that the advertising costs are incurred. Prepaid advertising recorded on our unaudited condensed consolidated balance sheets as of April 1, 2011 and April 2, 2010 was $2.6 million and $1.3 million, respectively.

General and administrative expense for the first quarter of 2011 was $32.3 million, compared to the $25.9 million reported in the first quarter of 2010, driven by increases in incentive compensation and other employee related costs of $3.9 million and incremental costs of $1.0 million related to our business system transformation initiatives. Additionally, general and administrative expense in the first quarter of 2010 included a gain of $1.5 million associated with the termination of a licensing agreement.

Operating Income/(Loss)

We recorded operating income of $27.9 million in the first quarter of 2011, compared to operating income of $39.4 million in the prior year period. Operating income in the first quarter of 2010 included a gain of $1.5 million associated with the termination of a licensing agreement.

Other Income/(Expense) and Taxes

Interest income was $0.1 million in each of the first quarters of 2011 and 2010. Interest expense, which is comprised of fees related to the establishment and maintenance of our revolving credit facility, was $0.2 million and $0.1 million in the first quarters of 2011 and 2010, respectively.

Other, net, included foreign exchange gains of $1.6 million in the first quarter of 2011 compared to foreign exchange losses of $0.4 million in the first quarter of 2010, resulting from changes in the fair value of financial derivatives, specifically forward contracts not designated as cash flow hedges, and the currency gains and losses incurred on the settlement of local currency denominated receivables and payables. These results were driven by the volatility of exchange rates within the first quarters of 2011 and 2010 and should not be considered indicative of expected future results.

The effective income tax rate for the first quarter of 2011 was 39.1%. During the first quarter of 2011, the Company recorded a charge of approximately $2.2 million to income tax expense related to certain prior year matters. The Company anticipates that its effective tax rate for 2011 will be lower than its overall statutory rate of 39%. The effective income tax rate for the first quarter of 2010 was 34.3%.

In December 2009, we received a Notice of Assessment from the Internal Revenue Department of Hong Kong for approximately $17.6 million with respect to the tax years 2004 through 2008. In connection with the assessment, the Company was required to make payments to the Internal Revenue Department of Hong Kong totaling approximately $8.4 million in 2010, of which $0.9 million was paid in the first quarter of 2010. These payments are included in prepaid taxes on our unaudited condensed consolidated balance sheet. We believe we have a sound defense to the proposed adjustment and will continue to firmly oppose the assessment. We believe that the assessment does not impact the level of liabilities for our income tax contingencies. However, actual resolution may differ from our current estimates, and such differences could have a material impact on our future effective tax rate and our results of operations.

Segments Review

We have three reportable business segments (see Note 7 to the unaudited condensed consolidated financial statements contained herein): North America, Europe and Asia.

Revenue by segment for the quarter ended April 1, 2011 compared to the quarter ended April 2, 2010 is as follows (dollars in millions):

	For the Quarter Ended April 1, 2011	April 2, 2010	% Change
North America	$132.0	$121.9	8.3%
Europe	165.7	151.6	9.3
Asia	51.3	43.5	17.8
	$349.0	$317.0	10.1

Operating income/(loss) by segment and as a percentage of revenue for the quarters ended April 1, 2011 and April 2, 2010 are included in the table below (dollars in millions). Segment operating income is presented as a percentage of its respective segment revenue. Unallocated Corporate expenses are presented as a percentage of total revenue.

	For the Quarter Ended April 1, 2011		April 2, 2010	
North America	$ 21.3	16.1%	$ 21.6	17.8%
Europe	28.9	17.4	37.3	24.6
Asia	8.2	16.1	6.9	15.7
Unallocated Corporate	(30.5)	(8.7)	(26.4)	(8.3)
	$ 27.9	8.0	$ 39.4	12.4

North America

North America revenues were $132.0 million in the first quarter of 2011, an increase of 8.3% as compared to the same period in 2010. The results reflect solid growth from our Timberland® and Timberland PRO® footwear, as well as SmartWool® accessories. Within North America, revenue from our retail business grew 8.3%, driven by a 9.6% increase in comparable store sales. We had 64 stores at April 1, 2011 compared to 67 stores at April 2, 2010.

Operating income for our North America segment was $21.3 million, compared to $21.6 million for the first quarter of 2010. A 7.1% increase in operating expenses was partially offset by improved gross profit, where benefits from increased volume and more profitable product mix offset the impact of a rate decline from higher product costs. Operating expenses increased due to higher volume-related selling expenses and the impact in 2010 of a $1.5 million gain associated with the termination of a licensing agreement.

Europe

Europe recorded revenues of $165.7 million in the first quarter of 2011, a 9.3% increase from the first quarter of 2010, and an increase of 8.3% on a constant dollar basis. Growth across Southern and Central Europe, as well as Scandinavia, was partially offset by a decline in the U.K. Wholesale showed strong growth in men s footwear, while growth in retail was driven by apparel sales. Retail growth of 9.2% was driven by the net addition of 4 stores, as well as comparable store sales growth of 1.7%. Comparable store growth in outlet stores was partially offset by declines in our specialty stores. We had 67 stores at April 1, 2011 compared to 63 stores at April 2, 2010.

Timberland s European segment recorded operating income of $28.9 million in the first quarter of 2011, compared to operating income of $37.3 million in the first quarter of 2010. Declines in Europe were driven by lower gross margin and a 10.7% increase in operating expense. Gross margin declines reflect higher product costs, unfavorable product mix, and the impact of foreign exchange. Operating expense increases were driven primarily by employee-related costs, selling expense, and higher rent and occupancy costs from store expansion and volume.

Asia

In Asia, revenues increased 17.8%, or 10.0% in constant dollars, to $51.3 million in the first quarter of 2011 due to strong retail performance of apparel and men s footwear. Retail revenues were up 30.0%, driven by favorable foreign exchange rate impacts and retail expansion in Hong Kong and Taiwan. Comparable store sales grew 15.4%. We had 98 stores at April 1, 2011 compared to 91 stores at April 2, 2010.

We had operating income in our Asia segment of $8.2 million for the first quarter of 2011, compared to operating income of $6.9 million for the first quarter of 2010. Improvement in gross margin reflects favorable foreign exchange rate and mix impacts, partially offset by higher product costs. This improvement was partially offset by an increase in operating expense of 24.9% due to higher rent and occupancy costs from store expansion and volume, and higher employee-related costs.

In March 2011, an earthquake occurred off the northeast coast of Japan. The Company s organization and assets in Japan were not materially damaged by the earthquake and resultant tsunami. However, the implications of these events and the resulting damage to Japan s infrastructure, consumer confidence, and overall economy remain unclear. While we cannot yet fully assess the impact on our Japan business, we believe there could be a negative impact on our revenues and profits for this geography throughout the remainder of fiscal 2011 and into fiscal 2012.

Corporate Unallocated

Our Unallocated Corporate expenses increased 15.8% to $30.5 million in the first quarter of 2011. Unallocated Corporate expenses include central support and administrative costs, as well as supply chain costs, including sourcing and logistics, inventory cost variances and adjustments to standard costs, which are not allocated to our reportable business segments. The increase in costs reflects higher incentive compensation costs, incremental costs related to business system transformation initiatives, partially offset by favorability in our inventory standard cost adjustment compared to the adjustment made in the prior year period.

Reconciliation of Total Company, Europe and Asia Revenue Changes To Constant Dollar Revenue Changes

Total Company Revenue Reconciliation:

	For the Quarter Ended April 1, 2011	
	$ Change (millions)	% Change
Revenue increase (GAAP)	$ 32.0	10.1%
Increase due to foreign exchange rate changes	5.1	1.6%
Revenue increase in constant dollars	$ 26.9	8.5%

Europe Revenue Reconciliation:

	For the Quarter Ended April 1, 2011	
	$ Change (millions)	% Change

Revenue increase (GAAP)	$ 14.0	9.3%
Increase due to foreign exchange rate changes	1.4	1.0%
Revenue increase in constant dollars	$ 12.6	8.3%

Asia Revenue Reconciliation:

	For the Quarter Ended April 1, 2011	
	$ Change (millions)	% Change
Revenue increase (GAAP)	$ 7.7	17.8%
Increase due to foreign exchange rate changes	3.4	7.8%
Revenue increase in constant dollars	$ 4.3	10.0%

The difference between changes in reported revenue (the most comparable GAAP measure) and constant dollar revenue changes is the impact of foreign currency exchange rates. We calculate constant dollar revenue changes by recalculating current year revenue using the prior year s exchange rates and comparing it to the prior year revenue reported on a GAAP basis. We provide constant dollar revenue changes for Total Company, Europe and Asia results because we use the measure to understand the underlying results and trends of the business segments excluding the impact of exchange rate changes that are not under management s direct control. We have a foreign exchange rate risk management program intended to minimize both the positive and negative effects of currency fluctuations on our reported consolidated results of operations, financial position and cash flows. The actions taken by us to mitigate foreign exchange risk are reflected in cost of goods sold and other, net.

Accounts Receivable and Inventory

Accounts receivable were $178.5 million as of April 1, 2011, compared with $188.3 million at December 31, 2010 and $157.6 million at April 2, 2010, an increase of 13.2% as compared to the prior year quarter, driven primarily by revenue growth of 10.1% and timing of sales. Day s sales outstanding were 46 days as of April 1, 2011, compared with 35 days as of December 31, 2010 and 45 days as of April 2, 2010. Wholesale day s sales outstanding were 53 days as of April 1, 2011, compared with 44 days as of December 31, 2010 and 51 days as of April 2, 2010. The increase in day s sales outstanding is attributable to the timing of sales and lower doubtful account requirements.

Inventory was $186.9 million as of April 1, 2011, compared with $180.1 million as of December 31, 2010 and $136.9 million as of April 2, 2010. The increase of 36.5% over a low level in the prior year quarter is the result of expected growth for the business in 2011, increased product costs, and efforts to secure product in advance of potential factory capacity constraints.

Liquidity and Capital Resources

Net cash used by operations for the first quarter of 2011 was $34.3 million, compared with $26.3 million for the first quarter of 2010. The increase in cash used by operations was driven primarily by a decrease in net income. Overall, in 2011 we invested $66.4 million in operating assets and liabilities compared to an investment of $62.5 million in the first quarter of 2010, reflecting higher inventory investment to support our expected growth.

Net cash used by investing activities was $8.0 million in the first quarter of 2011, compared with $2.8 million in the first quarter of 2010. Capital spending totaled $8.7 million in the first quarter of 2011 compared to $2.8 million in the first quarter of 2010. The increase was driven by capital spending associated with our multi-year business systems transformation initiative, as well as sourcing, logistics and retail related investments.

Net cash provided by financing activities was $33.9 million in the first quarter of 2011, compared with $18.9 million of cash used by financing activities in the first quarter of 2010. Cash flows for financing activities reflected share repurchases of $0.9 million in the first quarter of 2011, compared with $19.5 million in the first quarter of 2010. We received cash inflows of $31.4 million in the first quarter of 2011 from the exercise of employee stock options, compared with $0.7 million from such exercises in the first quarter of 2010.

We are exposed to the credit risk of those parties with which we do business, including counterparties on our derivative contracts and our customers. Derivative instruments expose us to credit and market risk. The market risk associated with these instruments resulting from currency exchange rate movements is expected to offset the market risk of the underlying transactions being hedged. We do not believe there is a significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a group of major financial institutions and have varying maturities through July 2012. As a matter of policy, we enter into these contracts only with counterparties having a minimum investment-grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Additionally, consumer spending continues to be affected by the current macro-economic environment. Continued deterioration, or lack of improvement, in the markets and economic conditions generally could adversely impact our customers and their ability to access credit.

We may utilize our committed and uncommitted lines of credit to fund our seasonal working capital needs. We have not experienced any restrictions on the availability of these lines and the adverse capital and credit market conditions are not expected to significantly affect our ability to meet our liquidity needs.

At the end of the first quarter of 2011, we had an unsecured committed revolving credit agreement with a group of banks, which matures on June 2, 2011 (the Agreement). The Agreement provided for $200 million of committed borrowings, of which up to $125 million could be used for letters of credit. Any letters of credit outstanding under the Agreement ($1.6 million at April 1, 2011) reduced the amount available for borrowing under the Agreement. Upon approval of the bank group, we could increase the committed borrowing limit by $100 million for a total commitment of $300 million. Under the terms of the Agreement, we could borrow at interest rates based on Eurodollar rates (approximately 0.3% at April 1, 2011), plus an applicable margin based on a fixed-charge coverage grid of between 13.5 and 47.5 basis points that is adjusted quarterly. As of April 1, 2011, the applicable margin under the facility was 47.5 basis points. We paid a utilization fee of an additional 5 basis points if our outstanding borrowings under the facility exceed $100 million. We also paid a commitment fee of 6.5 to 15 basis points per annum on the total commitment, based on a fixed-charge coverage grid that is adjusted quarterly. As of April 1, 2011, the commitment fee was 15 basis points. The Agreement placed certain limitations on additional debt, stock repurchases, acquisitions, and the amount of dividends we could pay, and included certain other financial and non-financial covenants. The primary financial covenants related to maintaining a minimum fixed-charge coverage ratio of 2.25:1 and a maximum leverage ratio of 2:1. We measured compliance with the financial and non-financial covenants and ratios as required by the terms of the Agreement on a fiscal quarter basis.

On April 26, 2011, we entered into an amended and restated unsecured revolving credit facility with a group of banks (the New Agreement). The New Agreement, which will expire on April 26, 2016, amends and restates the Agreement. Borrowing availability and financial covenants in the New Agreement are substantially similar to those under the Agreement. Under the terms of the New Agreement, we may borrow at interest rates based on Eurodollar rates plus an applicable margin based on a fixed-charge coverage grid of between 87.5 and 175 basis points that is adjusted quarterly. We will also pay a commitment fee of 12.5 to 25 basis points per annum on the total commitment, based on a fixed-charge coverage grid that is adjusted quarterly.

We have uncommitted lines of credit available from certain banks which totaled $30 million at April 1, 2011. Any borrowings under these lines would be at prevailing money market rates. Further, we have an uncommitted letter of credit facility of $80 million to support inventory purchases. These arrangements may be terminated at any time at the option of the banks or at our option.

We had no borrowings outstanding under any of our credit facilities during, or as of, the quarters ended April 1, 2011 and April 2, 2010.

Management believes that our operating costs, capital requirements and funding for our share repurchase program for the balance of 2011 will be funded through our current cash balances, our credit facilities and cash from operations, without the need for additional financing. We are undertaking a multi-year Business Transformation Initiative pursuant to which we will develop and implement an ERP system to better support our business model and further streamline our operations. It is the Company s intent to finance these costs with cash from operations, without the need for additional financing. However, as discussed in the sections entitled Cautionary Note Regarding Forward-Looking Statements on page 2 of this Quarterly Report on Form 10-Q and in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q, several risks and uncertainties could require that the Company raise additional capital through equity and/or debt financing. From time to time, the Company considers acquisition opportunities which, if pursued, could also result in the need for additional financing. However, if the need arises, our ability to obtain any additional financing will depend upon prevailing market conditions, our financial condition and the terms and conditions of such financing.

Off-Balance Sheet Arrangements

Letters of Credit

As of April 1, 2011, December 31, 2010 and April 2, 2010, we had letters of credit outstanding of $20.1 million, $16.5 million and $15.7 million, respectively. These letters of credit were issued principally in support of real estate commitments.

We use funds from operations and unsecured committed and uncommitted lines of credit as the primary sources of financing for our seasonal and other working capital requirements. Our principal risks related to these sources of financing are the impact on our financial condition from economic downturns, a decrease in the demand for our products, increases in the prices of materials and a variety of other factors.

New Accounting Pronouncements

A discussion of new accounting pronouncements, none of which had a material impact on our operations, financial condition or liquidity, is included in Note 1 to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our financial position and results of operations are routinely subject to a variety of risks, including market risk associated with interest rate movements on borrowings and investments and currency rate movements on non-U.S. dollar denominated assets, liabilities and cash flows. We regularly assess these risks and have established policies and business practices that should mitigate a portion of the adverse effect of these and other potential exposures.

We utilize cash from operations and U.S. dollar denominated borrowings to fund our working capital and investment needs. Short-term debt, if required, is used to meet working capital requirements and long-term debt, if required, is generally used to finance long-term investments. In addition, we use derivative instruments to manage the impact of foreign currency fluctuations on a portion of our foreign currency transactions. These derivative instruments are viewed as risk management tools and are not used for trading or speculative purposes. Cash balances are invested in high-grade securities with terms of less than three months.

We have available unsecured committed and uncommitted lines of credit as sources of financing for our working capital requirements. Borrowings under these credit agreements bear interest at variable rates based on either lender s cost of funds, plus an applicable spread, or prevailing money market rates. As of April 1, 2011, December 31, 2010 and April 2, 2010, we had no short-term or long-term debt outstanding.

Our foreign currency exposure is generated primarily from our European operating subsidiaries and, to a lesser degree, our Asian and Canadian operating subsidiaries. We seek to mitigate the impact of these foreign currency fluctuations through a risk management program that includes the use of derivative financial instruments, primarily foreign currency forward contracts. These derivative instruments are carried at fair value on our balance sheet. The Company has implemented a program that qualifies for hedge accounting treatment to aid in mitigating our foreign currency exposures and decreasing the volatility of our earnings. The foreign currency forward contracts under this program will expire in sixteen months or less. Based upon a sensitivity analysis as of April 1, 2011, a 10% change in foreign exchange rates would cause the fair value of our derivative instruments to increase/decrease by approximately $18.9 million, compared to an increase/decrease of $19.4 million at December 31, 2010 and an increase/decrease of $11.5 million at April 2, 2010.

Item 4. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the federal securities laws is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure.

Based on their evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, were effective as of the end of the period covered by this report.

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the quarter ended April 1, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the section entitled Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, and Part II, Item 1A of any Quarterly Report on Form 10-Q filed subsequent to our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K, and in any Quarterly Report on Form 10-Q filed subsequent to our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

The risk factor described below is an addition to those risk factors referenced above:

Our business could be adversely impacted by natural disasters, including earthquakes, hurricanes, tsunamis or other adverse weather and climate conditions.

Natural disasters such as earthquakes, hurricanes, tsunamis or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, and the consequences and effects thereof, including energy shortages and public health issues, could disrupt our operations, or the operations of our business partners, or result in economic instability that may negatively impact our operating results and financial condition.

On March 11, 2011, an earthquake occurred off the northeast coast of Japan. The Company s organization and assets in Japan were not materially damaged by the earthquake and resultant tsunami. However, the implications of these events and the resulting damage to Japan s infrastructure, consumer confidence, and overall economy remain unclear. While we cannot yet fully assess the impact on our Japan business, we believe there could be a negative impact on our revenues and profits for this geography throughout the remainder of fiscal 2011 and into fiscal 2012.

Item 6. EXHIBITS

Exhibit 10.1 The Timberland Company 2011 Executive Long Term Incentive Program, filed herewith.

Exhibit 31.1 Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

Exhibit 31.2 Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

Exhibit 32.1 Chief Executive Officer Certification Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.

Exhibit 32.2 Chief Financial Officer Certification Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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.

	THE TIMBERLAND COMPANY (Registrant)	
Date: May 5, 2011	By:	/s/ JEFFREY B. SWARTZ Jeffrey B. Swartz *Chief Executive Officer*
Date: May 5, 2011	By:	/s/ CARRIE W. TEFFNER Carrie W. Teffner *Chief Financial Officer*

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