

WOLVERINE WORLD WIDE INC /DE/  
Form 10-Q  
October 20, 2005

**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 10, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number: 001-06024

**WOLVERINE WORLD WIDE, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

**38-1185150**

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

**9341 Courtland Drive, Rockford, Michigan**

**49351**

(Address of Principal Executive Offices)

(Zip Code)

**(616) 866-5500**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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 58,989,509 shares of Common Stock, \$1 par value, outstanding as of October 12, 2005, of which 2,122,919 shares are held as Treasury Stock.

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## **FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the footwear business, worldwide economics and the Company itself including, without limitation, statements regarding timing or acceptance of new products, anticipated sell-throughs, future progress toward achieving the Company's strategic growth plan, estimated tax rate, the use of excess cash flows, future revenues, earnings and marketing, statements in Part I, Item 2 regarding the overview, the Company's financial condition, liquidity and capital resources and statements in Part I, Item 3 regarding market risk. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "should," "will," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Risk Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk Factors include, but are not limited to, uncertainties relating to changes in demand for the Company's products; changes in consumer preferences or spending patterns; the cost and availability of inventories, services, labor and equipment furnished to the Company; the cost and availability of contract manufacturers; the cost and availability of raw materials, including leather and petroleum based materials; changes in planned consumer demand or at-once orders; customer order cancellations; the impact of competition and pricing by the Company's competitors; changes in government and regulatory policies; foreign currency fluctuation in valuations compared to the U.S. Dollar; changes in monetary controls and valuations of the Chinese Yuan Renminbi and the relative value to the U.S. dollar; changes in duty structures in countries of import and export including anti-dumping measures being considered in Europe with respect to leather footwear imported from China and Vietnam and safety footwear imported from China and India; changes in interest rates, tax laws, duties, tariffs, quotas or applicable assessments; technological developments; changes in local, domestic or international economic and market conditions; the size and growth of footwear markets; service interruptions at shipping and receiving ports; changes in the amount or severity of inclement weather; changes due to the growth of Internet commerce; popularity of particular designs and categories of footwear; the ability of the Company to manage and forecast its growth and inventories; the ability to secure and protect trademarks, patents and other intellectual property; integration of operations of newly acquired businesses; changes in business strategy or development plans; the ability to attract and retain qualified personnel; the ability to retain rights to brands licensed by the Company; loss of significant customers; relationships with international distributors and licensees; the Company's ability to meet at-once orders; the exercise of future purchase options by the U.S. Department of Defense on previously awarded contracts; the risk of doing business in developing countries and economically volatile areas; retail buying patterns; consolidation in the retail sector; and the acceptability of U.S. brands in international markets. Additionally, concerns regarding acts of terrorism, the war in Iraq and subsequent events have created significant global economic and political uncertainties that may have material and adverse effects on consumer demand, foreign sourcing of footwear, shipping and transportation, product imports and exports and the sale of products in foreign markets. These matters are representative of the Risk Factors that could cause a difference between an ultimate actual outcome and a forward-looking statement. Historical operating results are not necessarily indicative of the results that may be expected in the future. The Risk Factors included here are not exhaustive. Other Risk Factors exist, and new Risk Factors emerge from time-to-time, that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Furthermore, the Company undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.



## PART I. FINANCIAL INFORMATION

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

## Consolidated Condensed Balance Sheets

(Thousands of dollars)

	September 10, 2005 (Unaudited)	January 1, 2005 (Audited)	September 11, 2004 (Unaudited)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 47,794	\$ 72,172	\$ 39,136
Accounts receivable, less allowances			
September 10, 2005 - \$9,103			
January 1, 2005 - \$8,200			
September 11, 2004 - \$10,738	205,255	151,174	191,926
Inventories:			
Finished products	173,778	161,315	163,232
Raw materials and work in process	22,619	21,609	18,786
	<u>196,397</u>	<u>182,924</u>	<u>182,018</u>
Other current assets	15,210	24,585	21,041
	<u>464,656</u>	<u>438,855</u>	<u>434,121</u>
<b>TOTAL CURRENT ASSETS</b>	<b>464,656</b>	<b>438,855</b>	<b>434,121</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Gross cost	260,341	252,844	247,810
Less accumulated depreciation	(168,038)	(157,914)	(153,108)
	<u>92,303</u>	<u>94,930</u>	<u>94,702</u>
<b>OTHER ASSETS</b>			
Goodwill and other non-amortizable intangibles	45,372	43,642	41,590
Prepaid pension costs	32,550	35,289	36,769
Other	35,399	34,855	34,623
	<u>113,321</u>	<u>113,786</u>	<u>112,982</u>
<b>TOTAL ASSETS</b>	<b>\$ 670,280</b>	<b>\$ 639,571</b>	<b>\$ 641,805</b>

See notes to consolidated condensed financial statements

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

(Thousands of dollars, except share data)

	September 10, 2005 (Unaudited)	January 1, 2005 (Audited)	September 11, 2004 (Unaudited)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 47,721	\$ 51,998	\$ 51,564
Accrued salaries and wages	15,376	15,831	19,692
Other accrued liabilities	60,556	30,687	50,132
Current maturities of long-term debt	11,735	11,735	11,730
<b>TOTAL CURRENT LIABILITIES</b>	<b>135,388</b>	<b>110,251</b>	<b>133,118</b>
Long-term debt (less current maturities)	32,154	32,169	43,894
Other non-current liabilities	38,825	38,294	36,373
Minority interest	-	566	433
<b>STOCKHOLDERS' EQUITY</b>			
Common Stock - par value \$1, authorized 160,000,000 shares; shares issued (including shares in treasury):			
September 10, 2005 - 58,946,879 shares			
January 1, 2005 - 67,350,495 shares			
September 11, 2004 - 66,445,143 shares	58,947	67,350	66,445
Additional paid-in capital	-	99,518	89,932
Retained earnings	442,340	437,406	420,327
Accumulated other comprehensive income	15,340	19,446	9,912
Unearned compensation	(6,766)	(4,955)	(6,319)
Cost of shares in treasury:			
September 10, 2005 - 2,122,919 shares			
January 1, 2005 - 9,452,361 shares			
September 11, 2004 - 9,176,640 shares	(45,948)	(160,474)	(152,310)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>463,913</b>	<b>458,291</b>	<b>427,987</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 670,280</b>	<b>\$ 639,571</b>	<b>\$ 641,805</b>

( ) - Denotes deduction.

See notes to consolidated condensed financial statements



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

(Thousands of dollars, except share data)

(Unaudited)

	12 Weeks Ended		36 Weeks Ended	
	September 10, 2005	September 11, 2004	September 10, 2005	September 11, 2004
Revenue	\$ 279,116	\$ 260,897	\$ 739,997	\$ 684,541
Cost of products sold	170,455	162,720	450,476	425,410
<b>GROSS MARGIN</b>	<b>108,661</b>	<b>98,177</b>	<b>289,521</b>	<b>259,131</b>
Selling and administrative expenses	72,087	65,188	208,487	189,842
<b>OPERATING INCOME</b>	<b>36,574</b>	<b>32,989</b>	<b>81,034</b>	<b>69,289</b>
Other expenses/(income):				
Interest expense	824	882	2,547	2,925
Interest income	(531)	(215)	(1,255)	(430)
Other - net	(158)	(88)	(172)	157
	135	579	1,120	2,652
<b>EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>36,439</b>	<b>32,410</b>	<b>79,914</b>	<b>66,637</b>
Income taxes	11,805	10,329	25,891	21,289
<b>EARNINGS BEFORE MINORITY INTEREST</b>	<b>24,634</b>	<b>22,081</b>	<b>54,023</b>	<b>45,348</b>
Minority interest	-	135	-	119
<b>NET EARNINGS</b>	<b>\$ 24,634</b>	<b>\$ 21,946</b>	<b>\$ 54,023</b>	<b>\$ 45,229</b>
Net earnings per share:				
Basic	\$ .44	\$ .38	\$ .96	\$ .78
Diluted	\$ .42	\$ .37	\$ .91	\$ .75

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Cash dividends per share	\$ .065	\$ .043	\$ .195	\$ .129
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Shares used for net earnings per share

computation:

Basic	56,184,187	57,050,367	56,550,407	57,786,107
Diluted	58,743,999	59,805,231	59,189,069	60,655,414

See notes to consolidated condensed financial statements

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

(Thousands of dollars, except share data)

(Unaudited)

	<b>36 Weeks Ended</b>	
	<b>September 10, 2005</b>	
<b>COMMON STOCK</b>		
Balance at beginning of the year	\$	67,350
Common stock issued under stock incentive plans		949
Issuance of treasury shares for stock split		(9,352)
Balance at end of the period	\$	58,947
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at beginning of the year	\$	99,518
Amounts associated with common stock issued under stock incentive plans		11,751
Issuance of treasury shares for stock split		(111,334)
Net change in notes receivable		65
Balance at end of the period	\$	-
<b>RETAINED EARNINGS</b>		
Balance at beginning of the year	\$	437,406
Issuance of treasury shares for stock split		(38,103)
Net earnings		54,023
Cash dividends		(10,986)
Balance at end of the period	\$	442,340
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Balance at beginning of the year	\$	19,446
Foreign currency translation adjustments		(5,441)
Change in fair value of foreign exchange contracts, net of taxes		1,335
Balance at end of the period	\$	15,340
<b>UNEARNED COMPENSATION</b>		
Balance at beginning of the year	\$	(4,955)
Awards under restricted stock incentive plans		(4,555)

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Compensation expense		2,744
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Balance at end of the period	\$	(6,766)
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COST OF SHARES IN TREASURY		
Balance at beginning of the year	\$	(160,474)
Repurchase of common stock for treasury (2,031,714 shares)		(44,451)
Issuance of treasury shares (8,795 shares)		174
Issuance of treasury shares for stock split (9,352,361 shares)		158,803
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Balance at end of the period	\$	(45,948)
<hr/>		
TOTAL STOCKHOLDERS' EQUITY AT END OF THE PERIOD	\$	463,913
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See notes to consolidated condensed financial statements

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

	<b>36 Weeks Ended</b>	
	<b>September 10, 2005</b>	<b>September 11, 2004</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 54,023	\$ 45,229
Adjustments necessary to reconcile net earnings to net cash provided by operating activities:		
Depreciation	13,369	13,276
Amortization	196	245
Other	9,823	5,012
Changes in operating assets and liabilities:		
Accounts receivable	(54,718)	(46,175)
Inventories	(13,733)	(18,394)
Other assets	8,964	16,588
Accounts payable and other accrued liabilities	22,703	33,831
	<hr/>	<hr/>
Net cash provided by operating activities	40,627	49,700
<b>INVESTING ACTIVITIES</b>		
Business acquisitions	(4,724)	-
Additions to property, plant and equipment	(11,590)	(12,795)
Other	416	(131)
	<hr/>	<hr/>
Net cash used in investing activities	(15,898)	(12,926)
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	23,256	29,957
Payments of long-term debt	(23,272)	(34,256)
Cash dividends	(11,192)	(7,505)
Purchase of common stock for treasury	(44,451)	(47,138)
Proceeds from shares issued under stock incentive plans	8,868	4,002
	<hr/>	<hr/>
Net cash used in financing activities	(46,791)	(54,940)
Effect of foreign exchange rate changes on cash	(2,316)	1,946
	<hr/>	<hr/>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(24,378)</b>	<b>(16,220)</b>

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Cash and cash equivalents at beginning of the period	72,172	55,356
	<u>                    </u>	<u>                    </u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$ 47,794	\$ 39,136
	<u>                    </u>	<u>                    </u>

( ) - Denotes reduction in cash and cash equivalents.  
See notes to consolidated condensed financial statements

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

### Notes to Consolidated Condensed Financial Statements September 10, 2005 and September 11, 2004

#### 1. Summary of Significant Accounting Policies

##### **NATURE OF OPERATIONS**

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

##### **BASIS OF PRESENTATION**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete presentation of the financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included in the accompanying financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2005.

##### **REVENUE RECOGNITION**

Revenue is recognized on the sale of products manufactured or sourced by the Company when the related goods have been shipped, legal title has passed to the customer and collectibility is reasonably assured. Revenue generated through programs with licensees and distributors involving products bearing the Company's trademarks is recognized as earned according to stated contractual terms upon either the purchase or shipment of branded products by licensees and distributors.

The Company records provisions against gross revenue for estimated stock returns and cash discounts in the period when the related revenue is recorded. These estimates are based on factors that include, but are not limited to, historical stock returns, historical discounts taken and analysis of credit memorandum activity.

##### **COST OF PRODUCTS SOLD**

Cost of products sold for the Company's operations include the actual product costs, including inbound freight charges, purchasing and receiving costs, inspection costs, and internal transfer costs. Warehousing costs are included in selling and administrative expenses.

##### **SEASONALITY**

The Company's business is subject to seasonal influences and has twelve weeks in each of the first three quarters and sixteen or seventeen weeks in the fourth quarter. Both factors can cause significant differences in revenue and earnings from quarter to quarter; however, the differences have followed a consistent pattern in previous years.

##### **RECLASSIFICATIONS**

Certain prior period amounts on the consolidated condensed financial statements have been reclassified to conform to

current period presentation. These reclassifications did not affect net earnings.



**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements - continued  
September 10, 2005 and September 11, 2004****2. Earnings Per Share**

The following table sets forth the reconciliation of weighted average shares used in the computation of basic and diluted earnings per share:

	12 Weeks Ended		36 Weeks Ended	
	September 10, 2005	September 11, 2004	September 10, 2005	September 11, 2004
Weighted average shares outstanding	<b>57,271,104</b>	58,133,692	<b>57,652,877</b>	58,875,151
Adjustment for nonvested restricted stock	<b>(1,086,917)</b>	(1,083,325)	<b>(1,102,470)</b>	(1,089,044)
Denominator for basic earnings per share	<b>56,184,187</b>	57,050,367	<b>56,550,407</b>	57,786,107
Effect of dilutive stock options	<b>1,783,166</b>	2,065,468	<b>1,853,009</b>	2,174,906
Adjustment for nonvested restricted stock	<b>776,646</b>	689,396	<b>785,653</b>	694,401
Denominator for diluted earnings per share	<b>58,743,999</b>	59,805,231	<b>59,189,069</b>	60,655,414

Options to purchase 576,858 and 488,851 shares of common stock for the 12 and 36 weeks ended September 10, 2005, respectively, and 528,323 and 479,406 shares for the 12 and 36 weeks ended September 11, 2004, 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, were anti-dilutive.

**STOCK SPLIT**

On December 15, 2004 the Company announced a three-for-two stock split in the form of a stock dividend on shares of common stock outstanding at January 3, 2005 that was distributed to stockholders on February 1, 2005. All share and per share amounts in the consolidated condensed financial statements and related notes have been adjusted to reflect the stock split. Treasury shares were excluded from the stock split. Approximately half of the shares distributed in the stock split were issued out of treasury shares.

**3. Goodwill and Other Non-Amortizable Intangibles**

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

	Goodwill	Trademarks	Total
Balance at September 11, 2004	\$ 33,697	\$ 7,893	\$ 41,590
Intangibles acquired	-	197	197
Purchase accounting adjustments	35	-	35
Foreign currency translation effects	1,820	-	1,820

Balance at January 1, 2005	35,552	8,090	43,642
Intangibles acquired	<b>2,489</b>	<b>74</b>	<b>2,563</b>
Purchase accounting adjustments	<b>351</b>	-	<b>351</b>
Foreign currency translation effects	<b>(1,184)</b>	-	<b>(1,184)</b>
<hr/>			
Balance at September 10, 2005	<b>\$ 37,208</b>	<b>\$ 8,164</b>	<b>\$ 45,372</b>
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**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.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements - continued  
September 10, 2005 and September 11, 2004**

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

	<b>September 10, 2005</b>	January 1, 2005	September 11, 2004
Foreign currency translation adjustments	\$ 18,346	\$ 23,787	\$ 14,197
Foreign currency cash flow hedge adjustments	(142)	(1,477)	(402)
Minimum pension liability adjustments, net of taxes	(2,864)	(2,864)	(3,883)
<b>Accumulated other comprehensive income (loss)</b>	<b>\$ 15,340</b>	<b>\$ 19,446</b>	<b>\$ 9,912</b>

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

	12 Weeks Ended		36 Weeks Ended	
	<b>September 10, 2005</b>	September 11, 2004	<b>September 10, 2005</b>	September 11, 2004
Net earnings	\$ 24,634	\$ 21,946	\$ 54,023	\$ 45,229
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,754	(1,057)	(5,441)	137
Change in fair value of foreign currency exchange contracts, net of taxes	(712)	509	1,335	1,235
<b>Comprehensive income</b>	<b>\$ 25,676</b>	<b>\$ 21,398</b>	<b>\$ 49,917</b>	<b>\$ 46,601</b>

**5. Business Segments**

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

The other business units in the following table consist of the Company's retail, tannery and pigskin procurement operations. The Company operated 73 domestic retail stores and six consumer direct internet sites at September 10, 2005 that sell Company-manufactured and sourced products, as well as footwear manufactured by unaffiliated companies. The other business units distribute products through retail and wholesale channels.

There have been no material changes in the way the Company measures segment profits or in its basis of determining business segments.



**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements - continued  
September 10, 2005 and September 11, 2004**

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

	<b>Branded Footwear and Licensing</b>	<b>Other Businesses</b>	<b>Corporate</b>	<b>Consolidated</b>
<b>12 weeks ended September 10, 2005</b>				
Revenue from external customers	\$ 258,330	\$ 20,786	\$ -	\$ 279,116
Intersegment revenue	10,173	1,268	-	11,441
Earnings (loss) before income taxes	40,815	1,101	(5,477)	36,439
<b>36 weeks ended September 10, 2005</b>				
Revenue from external customers	\$ 676,058	\$ 63,939	\$ -	\$ 739,997
Intersegment revenue	25,960	2,462	-	28,422
Earnings (loss) before income taxes	88,585	2,951	(11,622)	79,914
<b>12 weeks ended September 11, 2004</b>				
Revenue from external customers	\$ 240,275	\$ 20,622	\$ -	\$ 260,897
Intersegment revenue	8,462	861	-	9,323
Earnings (loss) before income taxes and minority interest	35,484	962	(4,036)	32,410
<b>36 weeks ended September 11, 2004</b>				
Revenue from external customers	\$ 625,704	\$ 58,837	\$ -	\$ 684,541
Intersegment revenue	21,629	1,914	-	23,543
Earnings (loss) before income taxes and minority interest	75,167	1,793	(10,323)	66,637

**6. Financial Instruments and Risk Management**

The Company's financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts and notes payable and long-term debt. Except for fixed-rate, long-term debt at September 10, 2005 with a carrying value of \$42,857,000 and a fair value of \$45,073,000, the Company's estimate of the fair values of these financial instruments approximates their carrying amounts at September 10, 2005. Fair value was determined using discounted cash flow analyses and current interest rates for similar instruments. The Company does not hold or issue financial instruments for trading purposes.

The Company follows Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS Nos. 137 and 138, which requires that all derivative instruments be recorded on the balance sheet 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 foreign currency inventory purchases made by non-U.S. wholesale operations in the normal course of business. At September 10, 2005 and September 11, 2004, foreign exchange contracts with a notional value of \$47,808,000 and \$17,048,500, respectively, were outstanding to purchase various currencies (principally U.S. dollars) with maturities ranging up to one year. These contracts have been designated as cash flow hedges. As of September 10, 2005 and September 11, 2004, liabilities of \$615,400 and \$61,500 have been recorded for the fair value of the foreign exchange contracts, respectively.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Condensed Financial Statements - continued  
September 10, 2005 and September 11, 2004**

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 for the third quarter and first three quarters ended September 10, 2005, respectively, and was \$199,000 and \$958,000 for the third quarter and first three quarters ended September 11, 2004, respectively. If, in the future, the foreign exchange contracts are determined to be ineffective hedges or are 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.

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

**7. Stock-Based Compensation**

The Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, in accounting for its stock incentive plans because the alternative fair value accounting provided under SFAS No.123, *Accounting for Stock-Based Compensation*, requires the use of option valuation models that were not specifically developed for valuing the types of stock incentives maintained by the Company. Under APB Opinion No. 25, compensation expense would be recognized if the market price of the stock underlying an award on the date of grant exceeds any related exercise price.

Pro forma information regarding net earnings and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock awards using the fair value method. The fair value of these awards was estimated at the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions for the first three quarters of 2005 were: risk-free interest rate of 3.68% (3.3% in 2004); dividend yield of 1.1% (1.1% in 2004); expected market price volatility factor of 0.24 (0.33 in 2004); and an expected option life of four years.

The estimated weighted-average fair value for each option granted was \$5.10 and \$4.41 for the first three quarters of 2005 and 2004, respectively.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements - continued**  
**September 10, 2005 and September 11, 2004**

For purposes of pro forma disclosures, the estimated fair values of stock options are amortized to expense over the related vesting periods. The Company's pro forma information under SFAS No. 123 is as follows (thousands of dollars, except per share data):

	12 Weeks Ended		36 Weeks Ended	
	September 10, 2005	September 11, 2004	September 10, 2005	September 11, 2004
Net earnings, as reported	\$ 24,634	\$ 21,946	\$ 54,023	\$ 45,229
Add: Total stock-based employee compensation expense included in reported net income, net of related tax effects	792	603	2,413	1,984
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	1,149	1,363	3,519	4,680
<b>Pro forma net earnings</b>	<b>\$ 24,277</b>	<b>\$ 21,186</b>	<b>\$ 52,917</b>	<b>\$ 42,533</b>
Net earnings per share:				
Basic - as reported	\$ 0.44	\$ 0.38	\$ 0.96	\$ 0.78
Basic - pro forma	0.43	0.37	0.94	0.74
Diluted - as reported	0.42	0.37	0.91	0.75
Diluted - pro forma	0.41	0.35	0.90	0.70

**8. Pension Expense**

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

	12 Weeks Ended		36 Weeks Ended	
	September 10, 2005	September 11, 2004	September 10, 2005	September 11, 2004
Service cost pertaining to benefits earned during the period	\$ 989	\$ 922	\$ 2,967	\$ 2,766
Interest cost on projected benefit obligations	2,185	2,081	6,555	6,243
Expected return on pension assets	(2,780)	(2,756)	(8,340)	(8,268)
Net amortization loss	1,805	1,285	5,415	3,855



Net pension expense	\$ 2,199	\$ 1,532	\$ 6,597	\$ 4,596
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**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 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 effect on the Company's consolidated financial position or future results of operations.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements - continued  
September 10, 2005 and September 11, 2004**

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 indemnify and reimburse the third parties for costs, including but not limited to adverse judgments in lawsuits and 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 payments are dependent on the occurrence of future unknown events.

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

	2005	2006	2007	2008	2009	Thereafter
Minimum royalties	\$1,018	\$796	\$940	\$1,044	\$1,309	\$ 2,356

Minimum royalties are based on both fixed obligations and assumptions regarding 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 \$2,145,000 and \$2,273,000 for the first three quarters of 2005 and 2004, respectively.

The terms of certain license agreements also require advertising expenditures based on the level of sales. In accordance with these agreements, the Company's advertising obligations, based on actual sales, totaled \$1,362,000 and \$1,559,000 for the first three quarters of 2005 and 2004, respectively.

**10. Business Acquisitions**

During the second quarter of 2005, the Company purchased the remaining 5% ownership from the minority stockholder of Wolverine Europe Limited, making it a wholly-owned subsidiary. The purchase price was \$2,322,000 of which \$407,000 was deferred until July 1, 2006. The transaction eliminated the minority interest of \$566,000 resulting in goodwill of \$1,756,000.

On January 3, 2005, the Company expanded its owned Wolverine® and CAT® Footwear operations in Canada. Based on a preliminary purchase price allocation, assets consisting primarily of inventory and fixed assets totaling approximately \$1,248,000 were acquired from a former Wolverine® and CAT® Footwear distributor for cash of \$2,333,000, subject to certain post-closing adjustments, and resulted in goodwill and intangible assets of approximately \$1,085,000. Consolidated pro forma revenue and net earnings in 2005, assuming the transaction occurred at the beginning of the year, are not materially different from reported amounts.

**11. New Accounting Standards**

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share-Based Payment*, which would require all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of operations based on their fair values, effective for public companies for fiscal years beginning after June 15, 2005. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. The Company intends to adopt SFAS No. 123(R) effective with its fiscal year

beginning January 1, 2006. SFAS No. 123(R) permits public companies to adopt its requirements using either the modified prospective or retrospective method.

The Company plans to elect the prospective method upon adoption and while the Company continues to evaluate its share based payment strategies, it estimates the net of tax impact of SFAS No. 123 (R) to range from \$4.1 million to \$5.3 million or \$.07 to \$.09 per share for 2006.

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

### **Overview**

Wolverine World Wide, Inc. (the "Company") achieved record results for the third quarter 2005. Revenue grew 7.0% to \$279.1 million, from \$260.9 million for the third quarter of 2004. The revenue increases were broad-based with The Hush Puppies Company, the Heritage Group and the Outdoor Group all reporting revenue increases while the Wolverine Footwear Group fell slightly below its third quarter 2004 performance. Earnings per share for the third quarter grew to \$0.42 per share compared to \$0.37 per share for the third quarter of 2004, an increase of 13.5%.

Revenue for the first three quarters of 2005 grew 8.1% to \$740.0 million from \$684.5 million for the first three quarters of 2004. Earnings per share during the first three quarters of 2005 grew to \$0.91 per share compared to \$0.75 per share for the first three quarters of 2004, an increase of 21.3%.

Record third quarter earnings were achieved through strong gross margin expansion of 130 basis points to 38.9%. Gross margin for the first three quarters increased 120 basis points with approximately 60 basis points of the improvement resulting from favorable hedge rate changes associated with the Company's foreign currency hedging strategy for inventory purchases.

The balance sheet reflected an increase in accounts receivable of \$13.3 million, a 6.9% increase over the prior year's comparable quarter end. The Company realized a 2.5% improvement in days' sales outstanding at the end of third quarter 2005 versus the third quarter of 2004. Inventory levels rose \$14.4 million or 7.9% over the balance at the end of the same period in the prior year. The Company ended the third quarter of 2005 with \$47.8 million in cash on hand and debt outstanding of \$43.9 million.

Achievements during the third quarter of 2005 include:

### **Global Expansion**

Revenue from international operations increased 19.7% as compared to the third quarter of 2004 and now represents 32.3% of total revenue on a year-to-date basis. The Company continues to experience growth in its European operations which recorded a 19.9% increase in the third quarter. The European operations currently represent 20.9% of total year-to-date revenue.

### **Product Expansion**

During the third quarter of 2005, extensions to the already successful Wolverine Multishox™ product were launched to the trade. The Heritage group introduced new product lines in both CAT® and Harley-Davidson® footwear. The Hush Puppies consumer responded favorably to the more contemporary and updated product offering. Global acceptance of the Merrell® Continuum initiatives such as "Aqua Sport" and "Chameleon" continued to fuel growth. In the third quarter, the Merrell® design team initiated the Spring 2007 Patagonia® product line-up. The Outdoor Group began the process of building a design team to launch a Merrell® apparel line. This is an important step in capitalizing on the lifestyle potential of the Merrell® brand as well as other brands in the Company's portfolio.

### **Strategic Marketing**

The Company continues to forge strong connections with its target consumers. During the third quarter of 2005, four new Hush Puppies® stores were opened by the Company's Hush Puppies® international licensees. Additionally, a CAT® concept shop was completed and opened by the Company's Chilean distributor. The Merrell® Shop-in-Shop program has grown to 157 Shop-in-Shops in the U.S. and 24 in Europe. Merrell's success in the Shop-in-Shops has led to agreements with independent retailers to open Merrell® exclusive stores. One store was opened in Germany during the quarter, with two slated for opening in U.S. markets in early 2006. The Wolverine Retail division opened one additional outlet store bringing the total store count to 73. Grass roots marketing efforts continue to bring the excitement of the brands to the core consumer.

The following is a discussion of the Company's results of operations and liquidity and capital resources for the 2005 third quarter and year-to-date periods. This section should be read in conjunction with the consolidated condensed financial statements and notes included in this report and the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2005.

**Results of Operations - Comparisons of the 12 Weeks Ended September 10, 2005 (third quarter of 2005) to the 12 Weeks Ended September 11, 2004 (third quarter of 2004)**

**Financial Summary - Third Quarter of 2005 versus Third Quarter of 2004**

	2005		2004		Change	
	\$	%	\$	%	\$	%
<i>(Millions of Dollars, Except Per Share Data)</i>						
<b>Revenue</b>						
Branded Footwear and Licensing	\$258.3	92.6%	\$240.3	92.1%	\$18.0	7.5%
Other business units	20.8	7.4%	20.6	7.9%	0.2	0.8%
<b>Total revenue</b>	<b>\$279.1</b>	<b>100.0%</b>	<b>\$260.9</b>	<b>100.0%</b>	<b>\$18.2</b>	<b>7.0%</b>
<b>Gross margin</b>						
Branded Footwear and Licensing	\$100.8	39.0%	\$90.9	37.8%	\$9.9	10.9%
Other business units	7.9	38.0%	7.3	35.5%	0.6	7.9%
<b>Total gross margin</b>	<b>\$108.7</b>	<b>38.9%</b>	<b>\$98.2</b>	<b>37.6%</b>	<b>\$10.5</b>	<b>10.7%</b>
Selling and administrative expenses	\$72.1	25.8%	\$65.2	25.0%	\$6.9	10.6%
Interest expense-net	0.3	0.1%	0.7	0.3%	(0.4)	(56.1%)
Other income-net	(0.2)	(0.1%)	(0.1)	0.0%	(0.1)	(79.5%)
Earnings before income taxes and minority interest	36.4	13.1%	32.4	12.4%	4.0	12.4%
Net earnings	24.6	8.8%	21.9	8.4%	2.7	12.2%
Diluted earnings per share	\$0.42		\$0.37		\$0.05	13.5%

The Company has one reportable segment that is engaged in manufacturing, sourcing, marketing and distributing branded products. Within the Branded Footwear and Licensing segment, the Company has identified five operating units, consisting of the Outdoor Group (comprised of the Merrell®, Sebago® and Patagonia® brands), the Wolverine Footwear Group (comprised of the Wolverine®, Hystest®, Bates® and Stanley® brands), the Heritage Brands Group (comprised of CAT® Footwear and Harley-Davidson® Footwear), The Hush Puppies Company, and Other Branded Footwear and Licensing. The Company's other business units consist of Wolverine Retail and Wolverine® Leathers (comprised of the tannery and procurement operations). The following is supplemental information on total revenue:

**Total Revenue - Third Quarter**

	2005		2004		Change	
	\$	%	\$	%	\$	%

(Millions of Dollars)						
Outdoor Group	<b>\$85.6</b>	<b>30.7%</b>	\$74.3	28.5%	\$11.3	15.2%
Wolverine Footwear Group	<b>65.2</b>	<b>23.4%</b>	66.9	25.6%	(1.7)	(2.5%)
Heritage Brands Group	<b>50.8</b>	<b>18.2%</b>	46.2	17.7%	4.6	10.0%
The Hush Puppies Company	<b>45.0</b>	<b>16.1%</b>	42.4	16.2%	2.6	6.1%
Other Branded Footwear and Licensing	<b>11.7</b>	<b>4.2%</b>	10.5	4.0%	1.2	11.4%
Total Branded Footwear and Licensing revenue	<b>\$258.3</b>	<b>92.6%</b>	\$240.3	92.1%	\$18.0	7.5%
Other business units	<b>20.8</b>	<b>7.4%</b>	20.6	7.9%	0.2	0.8%
Total revenue	<b>\$279.1</b>	<b>100.0%</b>	\$260.9	100.0%	\$18.2	7.0%

### REVENUE

The Company reported an \$18.2 million increase in revenue for the quarter. The addition of the CAT® and Wolverine® wholesale operations in Canada, the Merrell® wholesale operations in Sweden and Finland and the transition in the Sebago® operations from a distributor-based business to a wholesale business in the UK and Germany represented \$5.1 million of the revenue increase. The impact of translating foreign denominated revenue to U.S. dollars had a nominal impact on revenue during the quarter. The remaining increase was a result of increases in unit volume, changes in product mix and

changes in average selling price. International revenue increased in the quarter accounting for 32.9% of total revenue as compared to 29.4% in 2004.

The Outdoor Group recorded a revenue increase of \$11.3 million in the quarter, a 15.2% improvement over the third quarter of 2004. The Merrell® business accounted for \$9.9 million of the increase while Sebago® recorded a \$1.4 million increase. The Merrell® division experienced increases across the globe. Broad acceptance and strong sell-through of the new Continuum™ performance product fueled the increase. The Sebago® growth was driven by increased U.S. and European shipments. New product introductions in the sports fashion category and technical water sport category drove the increase in the U.S. In Europe, operating model changes have created a more competitive pricing model and resulted in increased demand for both classic as well as new product introductions.

The Wolverine Footwear Group recorded a \$1.7 million decrease in revenue in the quarter. The Bates® uniform footwear business reported a \$1.8 million reduction due primarily to lower shipments to the Department of Defense. Partially offsetting the decrease was incremental revenue of \$0.7 million from the Wolverine® Canada operation. The Wolverine® Boots and Shoes business recognized a \$0.6 million increase due to demand for premium Gore-Tex® waterproof boots and Wolverine MultiShox™ product. Additionally, a \$0.4 million reduction in Stanley® footwear also contributed to the revenue decline.

The Heritage Brands Group experienced a \$4.6 million increase in revenue during the quarter. CAT® Footwear's revenue increased \$5.0 million during the quarter, of which \$4.2 million came from strong shipments in Europe and with the Company's international partners. Strong boot sales and shipments of product with the premium iTechnology™ drove the increase. Incremental revenue of \$2.1 million from the CAT® Canada business also contributed to the increase. The U.S. CAT® business experienced a reduction of \$1.3 million, partially offsetting the increase. Harley-Davidson® Footwear revenue decreased \$0.4 million in the quarter due primarily to a reduction in at-once business.

The Hush Puppies Company's revenue increased \$2.6 million in the third quarter of 2005. The Hush Puppies® foreign operations contributed \$2.1 million of the increase. Strong global acceptance of the more contemporary image and updated product offering is driving increases across the globe. The U.S. business has expanded distribution in both the department store channel as well as with independent fashion retailers resulting in a \$0.5 million increase.

Within the Company's other business units, Wolverine Retail reported an increase in revenue of \$0.9 million as a result of same store revenue increases of 3.3%. One new retail store was opened in the quarter for a total of 73 stores compared to 68 at third quarter end 2004. The Wolverine® Leathers operation reported a \$0.7 million decrease in revenue from external customers.

#### GROSS MARGIN

Gross margin of 38.9% for the third quarter of 2005 reflected a 130 basis point improvement over the same period in the prior year. Benefits from an improved sales mix with increased sales of higher margin lifestyle and performance products resulted in a 50 basis point improvement. Benefits from favorable hedge rate changes associated with the Company's foreign currency hedging strategy for inventory purchases resulted in lower product costs which added 60 basis points to the margin. Improved pricing margins added 20 basis points to the increase.

#### SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses of \$72.1 million for the third quarter of 2005 increased \$6.9 million from the third quarter 2004 level. The addition of the CAT® and Wolverine® operations in Canada, the Merrell® business in Sweden and Finland and the transition of the Sebago® operations from a distributor- based business to a wholesale business in the UK and Germany accounted for \$1.8 million of the increase. The Company realized increases in pension and profit-sharing expenses of \$0.9 million. The remaining increases related primarily to selling, marketing and distribution costs which are variable to the increase in revenue.

INTEREST, OTHER & TAXES

The decrease in net interest expense reflects lower average outstanding amounts on senior notes and minimal borrowing under the Company's revolving credit facility as well as increased interest income from invested cash balances.



The Company's change in other income primarily relates to the change in realized gains or losses on foreign denominated assets and liabilities.

The Company's third quarter 2005 effective income tax rate was 32.4% compared to 31.9% for the third quarter of 2004.

### NET EARNINGS

As a result of the revenue, gross margin and expense changes discussed above, the Company achieved net earnings of \$24.6 million for the third quarter of 2005 as compared to \$21.9 million for the third quarter of 2004, an increase of \$2.7 million.

### Results of Operations - Comparisons of the 36 Weeks Ended September 10, 2005 (first three quarters of 2005) to the 36 Weeks Ended September 11, 2004 (first three quarters of 2004)

#### Financial Summary - First Three Quarters of 2005 versus First Three Quarters of 2004

	2005		2004		Change	
	\$	%	\$	%	\$	%
<i>(Millions of Dollars, Except Per Share Data)</i>						
Revenue						
Branded Footwear and Licensing	\$676.1	91.4%	\$625.7	91.4%	\$50.4	8.0%
Other business units	63.9	8.6%	58.8	8.6%	5.1	8.7%
<b>Total revenue</b>	<b>\$740.0</b>	<b>100.0%</b>	<b>\$684.5</b>	<b>100.0%</b>	<b>\$55.5</b>	<b>8.1%</b>
Gross margin						
Branded Footwear and Licensing	\$266.5	39.4%	\$239.0	38.2%	\$27.5	11.5%
Other business units	23.0	36.0%	20.1	34.1%	2.9	14.7%
<b>Total gross margin</b>	<b>\$289.5</b>	<b>39.1%</b>	<b>\$259.1</b>	<b>37.9%</b>	<b>\$30.4</b>	<b>11.7%</b>
Selling and administrative expenses	\$208.5	28.2%	\$189.8	27.7%	\$18.7	9.8%
Interest expense-net	1.3	0.2%	2.5	0.4%	(1.2)	(48.2%)
Other expense (income)-net	(0.2)	0.0%	0.2	0.0%	(0.4)	(209.6%)
Earnings before income taxes and minority interest	79.9	10.8%	66.6	9.7%	13.3	19.9%
Net earnings	54.0	7.3%	45.2	6.6%	8.8	19.4%
Diluted earnings per share	\$0.91		\$0.75		\$0.16	21.3%

The following is supplemental information on revenue of the Branded Footwear and Licensing operating units:

#### **Total Revenue - First Three Quarters**

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	2005		2004		Change	
	\$	%	\$	%	\$	%
(Millions of Dollars)						
Outdoor Group	<b>\$245.0</b>	<b>33.1%</b>	\$208.1	30.4%	\$36.9	17.7%
Wolverine Footwear Group	<b>170.6</b>	<b>23.1%</b>	181.2	26.5%	(10.6)	(5.9%)
Heritage Brands Group	<b>123.4</b>	<b>16.7%</b>	112.6	16.4%	10.8	9.6%
The Hush Puppies Company	<b>116.7</b>	<b>15.8%</b>	105.1	15.4%	11.6	11.0%
Other Branded Footwear and Licensing	<b>20.4</b>	<b>2.7%</b>	18.7	2.7%	1.7	8.9%
Total Branded Footwear and Licensing revenue	<b>\$676.1</b>	<b>91.4%</b>	\$625.7	91.4%	\$50.4	8.0%
Other business units	<b>63.9</b>	<b>8.6%</b>	58.8	8.6%	5.1	8.7%
Total revenue	<b>\$740.0</b>	<b>100.0%</b>	\$684.5	100.0%	\$55.5	8.1%

REVENUE

The revenue increase for the first three quarters of 2005 was \$55.5 million. The addition of the CAT® and Wolverine® wholesale operations in Canada, the Merrell® wholesale operations in Sweden and Finland and the transition in the Sebago® operations from a distributor-based to a wholesale business in the UK and Germany represented \$15.7 million of the revenue increase. The impact of translating foreign

denominated revenue into U.S. dollars improved revenue by \$4.8 million and the remaining increase was a result of increases in unit volume, changes in product mix and changes in selling price. International revenue increased on a year-to-date basis to account for 32.3% of total revenue compared to 28.7% in 2004.

The Outdoor Group reported a \$36.9 million revenue increase for the first three quarters of 2005. The Merrell® business accounted for \$33.0 million of the increase while Sebago® contributed an additional \$3.9 million. The addition of the wholesale operations in Sweden and Finland accounted for \$6.0 million of the Merrell® growth. The introduction of the Continuum™ performance product has been driving the global growth and strong sell-through has been achieved in both the U.S. and international markets. The Sebago® growth has come primarily in the European operations. The change from a distributor business in the U.K. and Germany to a wholesale-based operation has added \$0.8 million in revenue.

The Wolverine Footwear Group reported a \$10.6 million reduction in revenue for the first three quarters of 2005. The Bates® uniform footwear business reported a decrease of \$12.5 million due primarily to lower shipments to the Department of Defense. The lower demand was anticipated and is in line with the Company's plan. The Wolverine® Boots and Shoes business reported an increase of \$1.8 million driven primarily by incremental business in Canada. The Stanley® business recorded an increase of \$0.1 million.

The Heritage Brands Group experienced a \$10.8 million increase in revenue for the first three quarters of 2005. The CAT® business generated a \$12.2 million increase which was driven by the addition of incremental revenue in Canada of \$6.8 million as well as an increase in Europe of \$8.3 million. These increases were partially offset by decreases in the U.S. and with other international distributors. The European growth was fueled by strong boot sales as well as shipments of footwear incorporating iTechnology™. Harley-Davidson® Footwear's revenue decreased \$1.4 million for the first three quarters of 2005 due to a reduction in at-once business.

The Hush Puppies Company recorded an \$11.6 million increase in revenue for the first three quarters of 2005. Improved revenue in the U.K., combined with international licensing royalties accounted for \$7.2 million of the increase. Strong sell-through on Spring product as well as deliveries of Fall products in all distribution channels fueled the year-to-date increase. Growth in the U.S. market was driven by increases in the department store channel.

Within the Company's other business units, Wolverine Retail reported a \$4.0 million increase in revenue as a result of same store revenue increases of 6.6% for the first three quarters of 2005 as well as the addition of five new stores since the third quarter of 2004. The Wolverine® Leathers operation reported a \$1.1 million increase for the first three quarters of 2005. The growth was a result of increased sales to external customers.

The Company ended the third quarter of 2005 with an order backlog increase of over 19.0% compared to the third quarter backlog of 2004.

#### GROSS MARGIN

The gross margin percentage for the first three quarters of 2005 of 39.1% represents a 120 basis point improvement over the same period of the prior year. Benefits from an improved sales mix with increased sales of higher margin lifestyle and performance products resulted in a 50 basis point improvement. Benefits from favorable hedge rate changes associated with the Company's foreign currency hedging strategy for inventory purchases resulted in lower product costs which added 60 basis points to the margin. Improved pricing margins added 10 basis points to the increase.

#### SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses increased \$18.7 million for the first three quarters of 2005. The addition of the CAT® and Wolverine® operations in Canada, the Merrell® wholesale operations in Sweden and Finland and the transition in the Sebago® operation from a distributor-based to a wholesale business in the U.K. and Germany

accounted for \$5.6 million of the increase. The Company realized an increase in pension and profit-sharing expense of \$3.2 million. The Company continues to invest in marketing and new business development which accounted for \$4.2 million of the increase. The remaining increases related primarily to selling and distribution costs which are variable to the increase in revenue. The increase in expense was partially offset by a \$3.1 million reduction in bad debt expense resulting from improved accounts receivable collection.

INTEREST, OTHER & TAXES

The decrease in net interest expense reflects lower average outstanding amounts on senior notes and minimal borrowing under the Company's revolving credit facility as well as increased interest income from invested cash balances.

The change in other income primarily relates to the change in realized gains or losses on foreign denominated assets and liabilities.

The Company's effective income tax rate for the first three quarters of 2005 was 32.4% compared to 32.0% for the first three quarters of 2004. The estimated annualized effective rate for fiscal 2005 is 32.4% and does not include any impact from the potential repatriation of foreign earnings and profits under the American Jobs Creation Act of 2004 as the Company is still evaluating its alternatives, which it anticipates completing in the fourth quarter of 2005.

NET EARNINGS

As a result of the revenue, gross margin and expense changes discussed above, the Company achieved net earnings of \$54.0 million for the first three quarters of 2005 as compared to \$45.2 million for the first three quarters of 2004, an increase of \$8.8 million.

LIQUIDITY AND CAPITAL RESOURCES

	September 10, 2005	January 1, 2005	September 11, 2004	Change from	
				January 1, 2005	September 11, 2004
<i>(Millions of Dollars)</i>					
Cash	\$ 47.8	\$ 72.2	\$ 39.1	\$ (24.4)	\$ 8.7
Accounts receivable	205.3	151.2	191.9	54.1	13.4
Inventories	196.4	182.9	182.0	13.5	14.4
Accounts payable	47.7	52.0	51.6	(4.3)	(3.9)
Accrued salaries and wages	15.4	15.8	19.7	(0.4)	(4.3)
Other accrued liabilities	60.6	30.7	50.1	29.9	10.5
Debt	43.9	43.9	55.6	-	(11.7)
Cash provided by operating activities	40.6		49.7		(9.1)
Additions to property, plant and equipment	11.6		12.8		(1.2)
Depreciation and amortization	13.6		13.5		0.1

Cash of \$36.8 million was used to fund working capital investments during the first three quarters of 2005 compared to \$14.1 million used during the first three quarters of 2004. Accounts receivable for the 2005 third quarter increased 6.9% as compared to the third quarter of 2004 and the number of days' sales outstanding was reduced by 2.5% as compared to the third quarter of 2004. Inventory levels were up 7.9% for the 2005 third quarter over the same period last year on a 7.0% increase in revenue; and inventory turns improved 2.9%. No single customer accounted for more than 5% of the outstanding accounts receivable balance at September 10, 2005.

The decrease in accounts payable as compared to the prior year's third quarter end was primarily attributable to the timing of inventory purchases from contract suppliers. The increase in other accrued liabilities was primarily attributable to adjustments made for foreign currency forward exchange contracts and increases in employee benefit accruals.

The majority of capital expenditures were for information system enhancements, distribution 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 long-term revolving credit agreement that expires in July 2010 and allows for borrowings up to \$150.0 million. The revolving credit facility is used to support working capital requirements. No amounts were outstanding under revolving credit facilities at September 10, 2005 or September 11, 2004. The Company was in compliance with all debt covenant requirements at September 10, 2005. Proceeds from existing credit facilities and anticipated renewals, 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 10, 2005 compared to September 11, 2004 primarily was the result of annual principal payments on the Company's senior notes. The Company had commercial letter of credit facilities outstanding of \$1.5 million and \$1.3 million at September 10, 2005 and September 11, 2004, respectively. The total debt to total capital ratio for the Company was 8.6% for the 2005 third quarter, 11.5% for the 2004 third quarter and 8.7% for the fiscal year ended January 1, 2005.

The Company's pension benefit costs and credits are based upon actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected returns on plan assets. The Company is required to consider market conditions, including changes in interest rates, in selecting these assumptions. Pre-tax charges resulting from the Company's defined benefit pension plans increased \$2.0 million for the first three quarters of 2005 when compared to the same period of 2004.

The Company's Board of Directors approved a common stock repurchase program on October 5, 2004. This program authorizes the repurchase of 3.0 million shares of common stock over a 24-month period commencing on the effective date of the program. There were 959,800 shares (\$22.28 average price paid per share) repurchased during the 2005 third quarter and 1,980,700 shares (\$21.82 average price paid per share) repurchased during the first three quarters of 2005 under this program. The primary purpose of this 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 \$3.7 million in the third quarter of 2005, or \$.065 per share. This represents a 51.2% increase over the \$.043 per share declared in the third quarter of 2004. The quarterly dividend is payable on November 1, 2005 to stockholders of record on October 3, 2005.

On June 6, 2005 the Company announced an exclusive Footwear Licensing Agreement for Patagonia® Footwear with product introduction expected in Spring 2007.

The European Union is conducting anti-dumping investigations regarding the importation into the European Union of leather footwear from China and Vietnam and safety footwear from China and India. While the outcome of these investigations is uncertain, they could result in the imposition by the European Union of additional import duties on footwear imported into the European Union by the Company. The Company and a number of other companies in the footwear industry are advocating against the imposition of such duties by the European Union. The Company is also exploring alternative European Union sourcing model options if such duties are imposed.

### **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 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 1, 2005. Management believes there have been no changes in those critical accounting policies.



### **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 1, 2005, 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 and by maintaining a significant percentage of fixed-rate debt. 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 Form 10-Q Quarterly Report, 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.

The methods used by the Company to manage its primary market risk exposures, as described in the sections of its annual report incorporated herein by reference in response to this item, have not changed materially during the current year. As of the date of this Form 10-Q Quarterly Report, the Company does not expect to change its methods used to manage its market risk exposures in the near term. However, the Company may change those methods in the future to adapt to changes in circumstances or to implement new techniques.

The Company's market risk exposure is mainly comprised of its vulnerability to changes in foreign currency exchange rates and interest rates. Prevailing rates and rate relationships in the future will be primarily determined by market factors that are outside of the Company's control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned "Forward-Looking Statements" at the beginning of this document for a discussion of the limitations on the Company's responsibility for such statements. For purposes of this item, "near term" means a period of time going forward up to one year from the date of the financial statements included in this report.

The Company applies SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS Nos. 137 and 138, when accounting for derivative instruments. These provisions require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a 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 (loss) until the hedged item is recognized in earnings.

The Company conducts wholesale operations outside of the United States in Europe and Canada where the functional currencies are primarily the British Pound, Canadian Dollar and euro. The Company utilizes foreign currency forward exchange contracts to manage the volatility associated with foreign currency inventory purchases made by non-U.S. wholesale operations in the normal course of business. At September 10, 2005 and September 11, 2004, the Company had outstanding forward currency exchange contracts to purchase \$47.8 million and \$17.0 million, respectively, of various currencies (principally U.S. dollars) with maturities ranging up to one year.

The Company also has production facilities in the Dominican Republic where financial statements are prepared in U.S. dollars as the functional currency; however, operating costs are paid in the local currency. Royalty revenue generated by the Company from certain third-party foreign licensees is calculated in the licensees' local currencies, but paid in U.S. dollars. Accordingly, the Company could be subject to related foreign currency remeasurement gains and losses in 2005 and beyond.

**ITEM 4. Controls and Procedures**

As of quarter end, 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 such evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the

period covered by this report in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings with the Securities and Exchange Commission. There have been no changes during the quarter ended September 10, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Issuer Purchases of Equity Securities<sup>(1)</sup>

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Period 1 (June 19, 2005 to July 16, 2005)				
Common Stock Repurchase Program <sup>(2)</sup>	-	\$ -	-	1,940,382
Employee Transactions <sup>(3)</sup>	-	-	N/A	N/A
Period 2 (July 17, 2005 to August 13, 2005)				
Common Stock Repurchase Program <sup>(2)</sup>	731,600	22.29	731,600	1,208,782
Employee Transactions <sup>(3)</sup>	3,351	22.45	N/A	N/A
Period 3 (August 14, 2005 to September 10, 2005)				
Common Stock Repurchase Program <sup>(2)</sup>	228,200	22.25	228,200	980,582
Employee Transactions <sup>(3)</sup>	-	-	N/A	N/A
Total for Third Quarter ended September 10, 2005				
Common Stock Repurchase Program <sup>(2)</sup>	959,800	\$ 22.28	959,800	980,582
Employee Transactions <sup>(3)</sup>	3,351	22.45	N/A	N/A

- The information in this table and in these notes has been adjusted to reflect the three-for-two stock split distributed on February 1, 2005.
- The Company's Board of Directors approved a common stock repurchase program on October 5, 2004. This program authorizes the repurchase of 3.0 million shares of common stock over a 24-month period commencing on the effective date of the program. All shares repurchased during the period covered by this report were purchased under a publicly announced program.
- Employee transactions include: (1) 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 (2) 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 average of the high and low price of the Company's common stock on the date the relevant transaction occurs.

**ITEM 6. Exhibits**

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

<u>Exhibit Number</u>	<u>Document</u>
3.1	Certificate of Incorporation, as amended. Previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 26, 2005. Here incorporated by reference.
3.2	Amended and Restated Bylaws. Previously filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 7, 2002. Here incorporated by reference.
4.1	Credit Agreement dated as of July 22, 2005, among Wolverine World Wide, Inc., certain subsidiaries of Wolverine World Wide, Inc., JPMorgan Chase Bank, N.A., as Administrative Agent, Harris, N.A., as Syndication Agent, Comerica Bank, Standard Federal Bank N.A. and National City Bank of the Midwest, as Documentation Agents, and certain other Banks that are parties to the Credit Agreement. Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 28, 2005. Here incorporated by reference.
31.1	Certification of President and Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President, Chief Financial Officer and Treasurer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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 20, 2005

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Date

/s/ Timothy J. O'Donovan

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Timothy J. O'Donovan  
President, Chief Executive Officer and Chairman of  
the Board  
(Duly Authorized Signatory for Registrant)

October 20, 2005

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Date

/s/ Stephen L. Gulis, Jr.

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Stephen L. Gulis, Jr.  
Executive Vice President, Chief Financial Officer  
and Treasurer  
(Principal Financial Officer and Duly Authorized  
Signatory for Registrant)

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