WOLVERINE WORLD WIDE INC /DE/
Form 10-Q
July 29, 2010

Table of Contents

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

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

**For the second twelve week accounting period ended June 19, 2010**

**OR**

o **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 N.E., 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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 þ | Accelerated filer o | Non-accelerated filer o | 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).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

There were 63,686,651 shares of Common Stock, $1 par value, outstanding as of July 23, 2010, of which 14,897,837 shares are held as Treasury Stock.

TABLE OF CONTENTS

**Table of Contents**

## FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q contains forward-looking statements, which are statements relating to future events. Forward-looking statements are based on management s beliefs, assumptions, current expectations, estimates and projections about the footwear business, worldwide economics and the Company itself. Words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, predicts, projects, should, v words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ( Risk Factors ) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk Factors include, but are not limited to:

- uncertainties relating to changes in demand for the Company s products;
- changes in consumer preferences or spending patterns;
- changes in local, domestic or international economic and market conditions;
- the impact of competition and pricing by the Company s competitors;
- the cost and availability of inventories, services, labor and equipment furnished to the Company;
- the ability of the Company to manage and forecast its growth and inventories;
- increased future pension funding requirements;
- changes in duty structures in countries of import and export;
- changes in interest rates, tax laws, duties, tariffs, quotas or applicable assessments;
- foreign currency fluctuations compared to the U.S. dollar, most notably the British pound, Canadian dollar, euro and Chinese yuan;
- the risk of doing business in developing countries and economically volatile areas;
- the cost, availability and production capacity of contract manufacturers;
- the cost and availability of raw materials, including leather and petroleum-based materials;
- changes in planned consumer demand or at-once orders;
- loss of significant customers;
- customer order cancellations;
- the exercise of future purchase options by the U.S. Department of Defense on previously awarded contracts;
- the impact of a global recession on demand for the Company s products;
- the impact of limited credit availability on the Company s suppliers, distributors and customers;

the success of apparel and consumer-direct business initiatives;

changes in business strategy or development plans;

integration of operations of newly acquired businesses;

relationships with international distributors and licensees;

the ability to secure and protect trademarks, patents and other intellectual property;

technological developments;

the ability to attract and retain qualified personnel;

the size and growth of footwear, apparel and accessory 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;

**Table of Contents**

- the popularity of particular designs and categories of footwear;
- the Company s ability to adapt and compete in global apparel and accessory markets;

Additionally, concerns regarding acts of terrorism and international conflict 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. Investors should review the Risk Factors identified in Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended January 2, 2010 and any information regarding such Risk Factors included in the Company s subsequent filings with the Securities and Exchange Commission. Other Risk Factors exist, and new Risk Factors emerge from time to time, that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Furthermore, the Company undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

## PART I. FINANCIAL INFORMATION
## ITEM 1. Financial Statements

### WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES
### Consolidated Condensed Balance Sheets
### (Thousands of Dollars)
### (Unaudited)

| | **June 19, 2010** | January 2, 2010 | June 20, 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | **$ 110,120** | $ 160,439 | $ 79,171 |
| Accounts receivable, less allowances | | | |
| June 19, 2010 $14,217 | | | |
| January 2, 2010 $13,946 | | | |
| June 20, 2009 $14,021 | **183,221** | 163,755 | 182,881 |
| Inventories: | | | |
| Finished products | **155,363** | 140,124 | 169,516 |
| Raw materials and work-in-process | **15,410** | 17,941 | 14,145 |
| | **170,773** | 158,065 | 183,661 |
| Deferred income taxes | **9,941** | 12,475 | 10,780 |
| Prepaid expenses and other assets | **9,860** | 8,804 | 12,473 |
| Total current assets | **483,915** | 503,538 | 468,966 |
| Property, plant and equipment: | | | |
| Gross cost | **305,903** | 303,148 | 302,348 |
| Less accumulated depreciation | **235,348** | 229,196 | 224,350 |
| | **70,555** | 73,952 | 77,998 |
| Other assets: | | | |
| Goodwill and other non-amortizable intangibles | **54,165** | 56,198 | 55,755 |
| Cash surrender value of life insurance | **36,323** | 35,405 | 37,247 |
| Deferred income taxes | **35,690** | 35,094 | |
| Other | **3,865** | 3,746 | 27,796 |
| | **130,043** | 130,443 | 120,798 |
| Total assets | **$ 684,513** | $ 707,933 | $ 667,762 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

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

| | June 19, 2010 | January 2, 2010 | June 20, 2009 |
|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable | **$ 43,038** | $ 42,262 | $ 30,826 |
| Accrued salaries and wages | **15,907** | 20,751 | 18,558 |
| Income taxes | **10,530** | 18,887 | 8,923 |
| Accrued pension liabilities | **2,044** | 2,044 | 2,044 |
| Restructuring reserve | **3,340** | 5,926 | 3,115 |
| Other accrued liabilities | **42,506** | 42,443 | 52,713 |
| Current maturities of long-term debt | **492** | 538 | 549 |
| Revolving credit agreement | | | 34,800 |
| Total current liabilities | **117,857** | 132,851 | 151,528 |
| Long-term debt (less current maturities) | **492** | 1,077 | 1,094 |
| Deferred compensation | **5,558** | 5,870 | 6,108 |
| Accrued pension liabilities | **80,476** | 84,134 | 64,582 |
| Other non-current liabilities | **2,019** | 1,968 | 1,999 |
| Stockholders equity | | | |
| Common Stock par value $1, authorized 160,000,000 shares; shares issued (including shares in treasury): June 19, 2010 63,678,277 shares January 2, 2010 62,763,924 shares June 20, 2009 62,427,269 shares | **63,678** | 62,764 | 62,427 |
| Additional paid-in capital | **94,316** | 81,021 | 69,037 |
| Retained earnings | **740,472** | 706,439 | 673,713 |
| Accumulated other comprehensive income (loss) | **(47,389)** | (42,806) | (37,556) |
| Cost of shares in treasury: June 19, 2010 14,822,207 shares January 2, 2010 13,170,471 shares June 20, 2009 13,163,074 shares | **(372,966)** | (325,385) | (325,170) |
| Total stockholders equity | **478,111** | 482,033 | 442,451 |
| Total liabilities and stockholders equity | **$ 684,513** | $ 707,933 | $ 667,762 |

See accompanying notes to consolidated condensed financial statements.

**Table of Contents**

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| | **June 19, 2010** | June 20, 2009 | **June 19, 2010** | June 20, 2009 |
| Revenue | **$ 258,199** | $ 246,438 | **$ 543,096** | $ 501,762 |
| Cost of goods sold | **154,093** | 153,380 | **320,420** | 303,441 |
| Restructuring and other transition costs | **425** | 1,018 | **1,406** | 3,338 |
| Gross profit | **103,681** | 92,040 | **221,270** | 194,983 |
| Selling, general and administrative expenses | **76,720** | 72,823 | **155,260** | 148,143 |
| Restructuring and other transition costs | **2,311** | 6,901 | **2,828** | 19,039 |
| Operating profit | **24,650** | 12,316 | **63,182** | 27,801 |
| Other expenses (income): | | | | |
| Interest expense (income) net | **(4)** | 119 | **85** | 208 |
| Other expense net | **395** | 520 | **165** | 412 |
| | **391** | 639 | **250** | 620 |
| Earnings before income taxes | **24,259** | 11,677 | **62,932** | 27,181 |
| Income taxes | **7,037** | 3,771 | **18,251** | 8,780 |
| Net earnings | **$ 17,222** | $ 7,906 | **$ 44,681** | $ 18,401 |
| Net earnings per share: | | | | |
| Basic | **$ 0.35** | $ 0.16 | **$ 0.91** | $ 0.38 |
| Diluted | **$ 0.35** | $ 0.16 | **$ 0.89** | $ 0.37 |
| Cash dividends per share | **$ 0.11** | $ 0.11 | **$ 0.22** | $ 0.22 |

See accompanying notes to consolidated condensed financial statements.

7

**Table of Contents**

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

| | 24 Weeks Ended June 19, 2010 | 24 Weeks Ended June 20, 2009 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net earnings | **$ 44,681** | $ 18,401 |
| Adjustments necessary to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | **7,059** | 6,571 |
| Amortization | **795** | 704 |
| Deferred income taxes | **(649)** | 2 |
| Stock-based compensation expense | **5,110** | 4,033 |
| Excess tax benefits from stock-based compensation | **(873)** | |
| Pension expense | **7,517** | 7,224 |
| Restructuring and other transition costs | **4,234** | 22,378 |
| Cash payments related to restructuring and other transition costs | **(6,912)** | (11,662) |
| Other | **8,327** | (9,322) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(21,639)** | (9,052) |
| Inventories | **(15,693)** | 16,096 |
| Other operating assets | **(2,101)** | (631) |
| Accounts payable | **1,276** | (18,370) |
| Other operating liabilities | **(20,799)** | 15,574 |
| Net cash provided by operating activities | **10,333** | 41,946 |
| **INVESTING ACTIVITIES** | | |
| Business acquisitions | | (7,954) |
| Additions to property, plant and equipment | **(5,102)** | (4,937) |
| Other | **(890)** | (1,063) |
| Net cash used in investing activities | **(5,992)** | (13,954) |
| **FINANCING ACTIVITIES** | | |
| Net borrowings under revolver | | (24,700) |
| Payments of long-term debt and capital lease obligations | **(537)** | (3) |
| Cash dividends paid | **(10,799)** | (10,729) |
| Purchase of common stock for treasury | **(48,057)** | (6,195) |
| Proceeds from shares issued under stock incentive plans | **8,057** | 1,553 |
| Excess tax benefits from stock-based compensation | **873** | |
| Net cash used in financing activities | **(50,463)** | (40,074) |
| Effect of foreign exchange rate changes | **(4,197)** | 1,751 |

| | | |
|---|---|---|
| Decrease in cash and cash equivalents | **(50,319)** | (10,331) |
| Cash and cash equivalents at beginning of the period | **160,439** | 89,502 |
| Cash and cash equivalents at end of the period | **$ 110,120** | $ 79,171 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

All amounts are in thousands of dollars except share and per share data, and elsewhere as noted.

***1. Summary of Significant Accounting Policies***

**NATURE OF OPERATIONS**

Wolverine World Wide, Inc. is a leading designer, manufacturer and marketer of a broad range of quality casual shoes, performance outdoor footwear, apparel, work shoes and boots, and uniform shoes and boots. The Company s global portfolio of owned and licensed brands includes: *Bates®*, *Cat®* Footwear, *Chaco®*, *Cushe™*, *Harley-Davidson®* Footwear, *Hush Puppies®*, *HyTest®*, *Merrell®*, *Patagonia®* Footwear, *Sebago®*, *Soft Style®* and *Wolverine®*. Licensing programs are utilized to extend the global reach of the Company s owned brands. The Company also operates a retail division to market its own brands as well as branded footwear and apparel from other manufacturers; a leathers division that markets *Wolverine Performance Leathers* ; and a pigskin procurement operation.

**BASIS OF PRESENTATION**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete presentation of the financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included in the accompanying financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

**REVENUE RECOGNITION**

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

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

**COST OF GOODS SOLD**

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

**SEASONALITY**

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

**RECLASSIFICATIONS**

Certain prior period amounts on the consolidated condensed financial statements have been reclassified to conform to current period presentation. These reclassifications did not affect net earnings.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

***2. Earnings Per Share***

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| | **June 19, 2010** | June 20, 2009 | **June 19, 2010** | June 20, 2009 |
| Numerator: | | | | |
| Net earnings | **$ 17,222** | $ 7,906 | **$ 44,681** | $ 18,401 |
| Adjustment for earnings allocated to nonvested restricted common stock | **(273)** | (111) | **(670)** | (321) |
| Net earnings used in calculating basic earnings per share | **16,949** | 7,795 | **44,011** | 18,080 |
| Adjustment for earnings reallocated to nonvested restricted common stock | **6** | | **15** | 1 |
| Net earnings used in calculating diluted earnings per share | **$ 16,955** | $ 7,795 | **$ 44,026** | $ 18,081 |
| Denominator: | | | | |
| Weighted average shares outstanding | **49,160,001** | 49,087,819 | **49,376,607** | 49,001,869 |
| Adjustment for nonvested restricted common stock | **(1,248,223)** | (689,497) | **(1,170,522)** | (854,248) |
| Shares used in calculating basic earnings per share | **47,911,778** | 48,398,322 | **48,206,085** | 48,147,621 |
| Effect of dilutive stock options | **1,056,525** | 559,669 | **1,043,953** | 523,434 |
| Shares used in calculating diluted earnings per share | **48,968,303** | 48,957,991 | **49,250,038** | 48,671,055 |
| Net earnings per share: | | | | |
| Basic | **$ 0.35** | $ 0.16 | **$ 0.91** | $ 0.38 |
| Diluted | **$ 0.35** | $ 0.16 | **$ 0.89** | $ 0.37 |

Options to purchase 851,533 and 989,145 shares of common stock for the 12 and 24 weeks ended June 19, 2010, respectively, and 3,564,712 and 3,425,423 shares for the 12 and 24 weeks ended June 20, 2009, respectively have not been included in the denominator for the computation of diluted earnings per share because the related exercise prices of these shares were greater than the average market price for the quarters then-ended and, therefore, they were anti-dilutive.

The Company calculates earnings per share in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 260, *Earnings Per Share* ( ASC 260 ). ASC 260 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method. Under the guidance in ASC 260, the Company s unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and must be included in the computation of earnings per share pursuant to the two-class method.

Table of Contents

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

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

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

| | Goodwill | Trademarks | Total |
|---|---|---|---|
| Balance at June 20, 2009 | $ 39,785 | $ 15,970 | $ 55,755 |
| Intangibles acquired | 369 | 256 | 625 |
| Foreign currency translation effects | (182) | | (182) |
| Balance at January 2, 2010 | 39,972 | 16,226 | 56,198 |
| Intangibles acquired | | **87** | **87** |
| Foreign currency translation effects | **(1,908)** | **(212)** | **(2,120)** |
| Balance at June 19, 2010 | **$ 38,064** | $ **16,101** | $ **54,165** |

***4. Comprehensive Income (Loss)***

Comprehensive income (loss) represents net earnings and any revenue, expenses, gains and losses that, under accounting principles generally accepted in the United States, are excluded from net earnings and recognized directly as a component of stockholders equity.

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

| | **June 19, 2010** | January 2, 2010 | June 20, 2009 |
|---|---|---|---|
| Foreign currency translation adjustments | **$ 4,532** | $ 14,477 | $ 9,971 |
| Fair value of foreign exchange contracts, net of taxes | **1,816** | (3,546) | (1,642) |
| Pension adjustments, net of taxes | **(53,737)** | (53,737) | (45,885) |
| Accumulated other comprehensive income (loss) | **$ (47,389)** | $ (42,806) | $ (37,556) |

The reconciliation from net earnings to comprehensive income is as follows:

| | **12 Weeks Ended** | | **24 Weeks Ended** | |
|---|---|---|---|---|
| | **June 19, 2010** | June 20, 2009 | **June 19, 2010** | June 20, 2009 |
| Net earnings | $ **17,222** | $ 7,906 | **$ 44,681** | $ 18,401 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | **(2,042)** | 14,155 | **(9,945)** | 10,843 |
| Change in fair value of foreign exchange contracts, net of taxes | **3,227** | (6,102) | **5,362** | (5,565) |
| Comprehensive income | $ **18,407** | $ 15,959 | **$ 40,098** | $ 23,679 |

***5. Business Segments***

The Company has one reportable segment that is engaged in designing, manufacturing, sourcing, marketing, licensing, and distributing to the retail sector branded footwear, apparel and accessories. Revenue earned from the operations of this segment is derived from the sale of branded footwear, apparel and accessories to external customers as well as royalty income from the licensing of the Company s trademarks and brand names to third party licensees and distributors. The operating segments aggregated into the branded footwear, apparel and licensing segment manufacture, source, market and distribute products in a similar manner.

The other business units in the following tables consist of the Company s retail, leather and pigskin procurement operations. These other operations do not collectively form a reportable segment because their respective operations are dissimilar and they do not meet the applicable quantitative requirements. At June 19, 2010, the Company operated 79 retail stores in North America, 5 retail stores in the United Kingdom and 28 consumer-direct internet sites that sell Company-branded products, as well as footwear, apparel and accessory products under brands that are owned by unaffiliated companies. The other business units distribute products through retail and wholesale channels.

**Table of Contents**

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

The Company measures segment profits as earnings before income taxes. The accounting policies used to determine profitability and total assets of the branded footwear, apparel and licensing segment and other business units are the same as those disclosed in Note 1.

Business segment information is as follows:

| | **12 Weeks Ended June 19, 2010** | | | |
|---|---|---|---|---|
| | Branded Footwear, Apparel and Licensing | Other Business Units | Corporate | Consolidated |
| Revenue | **$ 225,147** | **$ 33,052** | **$** | **$ 258,199** |
| Intersegment revenue | **9,149** | **777** | | **9,926** |
| Earnings (loss) before income taxes | **31,330** | **2,237** | **(9,308)** | **24,259** |
| Total assets | **520,097** | **43,393** | **121,023** | **684,513** |

| | **24 Weeks Ended June 19, 2010** | | | |
|---|---|---|---|---|
| | Branded Footwear, Apparel and Licensing | Other Business Units | Corporate | Consolidated |
| Revenue | **$ 486,785** | **$ 56,311** | **$** | **$ 543,096** |
| Intersegment revenue | **16,568** | **1,506** | | **18,074** |
| Earnings (loss) before income taxes | **79,246** | **845** | **(17,159)** | **62,932** |
| Total assets | **520,097** | **43,393** | **121,023** | **684,513** |

| | 12 Weeks Ended June 20, 2009 | | | |
|---|---|---|---|---|
| | Branded Footwear, Apparel and Licensing | Other Business Units | Corporate | Consolidated |
| Revenue | $ 218,139 | $ 28,299 | $ | $ 246,438 |
| Intersegment revenue | 10,557 | 332 | | 10,889 |
| Earnings (loss) before income taxes | 19,166 | (1,660) | (5,829) | 11,677 |
| Total assets | 516,354 | 45,228 | 106,180 | 667,762 |

| | 24 Weeks Ended June 20, 2009 | |
|---|---|---|
| | Branded Footwear, | Other |

| | Apparel and Licensing | Business Units | Corporate | Consolidated |
|---|---|---|---|---|
| Revenue | $ 453,223 | $ 48,539 | $ | $ 501,762 |
| Intersegment revenue | 21,919 | 1,468 | | 23,387 |
| Earnings (loss) before income taxes | 48,567 | (10,498) | (10,888) | 27,181 |
| Total assets | 516,354 | 45,228 | 106,180 | 667,762 |

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

***6. Financial Instruments and Risk Management***

The Company follows FASB ASC Topic 820, *Fair Value Measurements and Disclosures* ( ASC 820 ), which provides a consistent definition of fair value, focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-tier hierarchy for fair value measurements. This topic requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Fair value is measured using quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Fair value is measured using either direct or indirect inputs, other than quoted prices included within Level 1, which are observable for similar assets or liabilities.

Level 3: Fair value is measured using valuation techniques in which one or more significant inputs are unobservable.

As of June 19, 2010 and June 20, 2009, an asset of $1,988 and a liability of $3,651, respectively, have been recognized for the fair value of the Company s foreign exchange contracts. In accordance with ASC 820, these liabilities and assets fall within Level 2 of the fair value hierarchy. The fair values for these financial instruments are determined using prices for recently-traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs. The Company did not have any additional assets or liabilities that were measured at fair value on a recurring basis at June 19, 2010.

The Company s financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts payable, borrowings under the Company s revolving credit agreement and long-term debt. The carrying amounts of the Company s financial instruments approximate their fair value. As of June 19, 2010 the carrying value and fair value of the Company s fixed rate long-term debt was $984 and $1,010, respectively. As of June 20, 2009 the carrying value and fair value of the Company s fixed rate long-term debt was $1,643 and $1,680, respectively. Fair value was determined using discounted cash flow analyses and current interest rates for similar instruments; therefore, the debt instruments fall within Level 2 of the fair value hierarchy. The Company does not hold or issue financial instruments for trading purposes.

The Company entered into a new credit agreement with a bank syndicate during the second quarter of 2010 which provides the Company with a revolving credit facility, including a swing-line facility and letter of credit facility, in an initial aggregate amount of up to $150.0 million. This amount is subject to increase up to a maximum aggregate amount of $225.0 million under certain circumstances. The revolving credit facility is used to support working capital requirements and other business needs. There were no amounts outstanding under the revolving credit facility at June 19, 2010 compared to $34.8 million outstanding at June 20, 2009 under the former revolving credit agreement. The Company considers balances drawn on the revolving credit facility, if any, to be short-term in nature. The Company was in compliance with all debt covenant requirements at June 19, 2010 and June 20, 2009. Proceeds from the new credit facility, along with cash flows from operations, are expected to be sufficient to meet working capital needs for the foreseeable future. Any excess cash flows from operating activities are expected to be used to purchase property, plant and equipment, pay down debt, fund internal and external growth initiatives, pay dividends or repurchase the Company s common stock.

The Company follows FASB ASC Topic 815, *Derivatives and Hedging,* which is intended to improve transparency in financial reporting and requires that all derivative instruments be recorded on the consolidated condensed balance sheets at fair value by establishing criteria for designation and effectiveness of hedging relationships. The Company utilizes foreign currency forward exchange contracts to manage the volatility associated with U.S. dollar inventory purchases made by non-U.S. wholesale operations in the normal course of business. At June 19, 2010 and June 20, 2009, foreign exchange contracts with a notional value of $91,900 and $72,315, respectively, were outstanding to purchase U.S. dollars with maturities ranging up to 308 days. These contracts have been designated as cash flow hedges.

The fair value of the foreign currency forward exchange contracts represents the estimated receipts or payments necessary to terminate the contracts. Hedge effectiveness is evaluated by the hypothetical derivative method. Any hedge ineffectiveness is reported within the cost of goods sold caption of the consolidated condensed statements of operations. Hedge ineffectiveness was not material to the consolidated condensed financial statements for the 12 and 24 weeks ended June 19, 2010 and June 20, 2009. If, in the future, the foreign exchange contracts are determined to be ineffective hedges or terminated before their contractual termination dates, the Company would be required to reclassify into earnings all or a portion of the unrealized amounts related to the cash flow hedges that are currently included in accumulated other comprehensive income (loss) within stockholders equity. For the 12 weeks ended June 19, 2010 and June 20, 2009, the Company recognized net gains of $676 and $333, respectively, in accumulated other comprehensive income (loss) related to the effective portion of its foreign exchange contracts. For the 12 weeks ended June 19, 2010 and June 20, 2009, the Company reclassified a gain of $991 and a loss of $2,742, respectively, from accumulated other comprehensive income (loss) into cost of goods sold related to the effective portion of its foreign exchange contracts designated and qualifying as cash flow hedges. For the 24 weeks ended June 19, 2010 and June 20, 2009, the Company recognized a net loss of $203 and a net gain of $3,167, respectively, in accumulated other comprehensive income (loss) related to the effective portion of its foreign exchange contracts.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

For the 24 weeks ended June 19, 2010 and June 20, 2009, the Company reclassified a gain of $2,408 and a loss of $3,986, respectively, from accumulated other comprehensive income (loss) into cost of goods sold related to the effective portion of its foreign exchange contracts designated and qualifying as cash flow hedges.

***7. Stock-Based Compensation***

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of FASB ASC Topic 718, *Compensation-Stock Compensation* ( ASC 718 ). The Company recognized compensation costs of $2,555 and $5,110, respectively, and related income tax benefits of $791 and $1,557, respectively, for grants under its stock-based compensation plans in the consolidated condensed statement of operations for the 12 and 24 weeks ended June 19, 2010. For the 12 and 24 weeks ended June 20, 2009, the Company recognized compensation costs of $2,486 and $4,033, respectively, and related income tax benefits of $553 and $918, respectively, for grants under its stock-based compensation plans.

Stock-based compensation expense recognized in the consolidated condensed statements of operations for the 12 and 24 weeks ended June 19, 2010 and June 20, 2009 is based on awards ultimately expected to vest and, therefore, has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

The Company estimated the fair value of employee stock options on the date of grant using the Black-Scholes model. The estimated weighted-average fair value for each option granted during the 24 weeks ended June 19, 2010 and June 20, 2009 was $6.94 and $4.36 per share, respectively, based on the following weighted-average assumptions:

| | **12 Weeks Ended** | | **24 Weeks Ended** | |
|---|---|---|---|---|
| | **June 19, 2010** | June 20, 2009 | **June 19, 2010** | June 20, 2009 |
| Expected market price volatility (1) | **37.2%** | 36.4% | **37.9%** | 34.8% |
| Risk-free interest rate (2) | **2.1%** | 1.6% | **1.9%** | 1.6% |
| Dividend yield (3) | **1.7%** | 2.0% | **1.9%** | 1.8% |
| Expected term (4) | **4 years** | 4 years | **4 years** | 4 years |

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

(2) Represents the U.S. Treasury yield curve in

effect for the expected term of the option at the time of grant.

(3) Represents the Company s cash dividend yield for the expected term.

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

The Company issued 154,658 and 1,017,829 shares of common stock in connection with the exercise of stock options and new restricted stock grants during the 12 and 24 weeks ended June 19, 2010, respectively. During the 12 and 24 weeks ended June 19, 2010, the Company cancelled 17,328 and 21,081 shares, respectively, of common stock as a result of forfeiture of restricted stock awards. The Company issued 120,200 and 816,069 shares of common stock in connection with the exercise of stock options and new restricted stock grants during the 12 and 24 weeks ended June 20, 2009, respectively. During the 12 and 24 weeks ended June 20, 2009, the Company cancelled 7,850 and 11,384 shares, respectively, of common stock as a result of forfeiture of restricted stock awards.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

***8. Pension Expense***

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

| | 12 Weeks Ended | | 24 Weeks Ended | |
|---|---|---|---|---|
| | **June 19, 2010** | June 20, 2009 | **June 19, 2010** | June 20, 2009 |
| Service cost pertaining to benefits earned during the period | **$ 1,322** | $ 1,077 | **$ 2,644** | $ 2,155 |
| Interest cost on projected benefit obligations | **2,936** | 2,839 | **5,871** | 5,677 |
| Expected return on pension assets | **(2,877)** | (2,518) | **(5,754)** | (5,036) |
| Net amortization loss | **2,378** | 2,214 | **4,756** | 4,428 |
| Net pension expense | **$ 3,759** | $ 3,612 | **$ 7,517** | $ 7,224 |

***9. Litigation and Contingencies***

The Company is involved in environmental claims and other legal actions arising in the normal course of business. The environmental claims include sites where the U.S. Environmental Protection Agency has notified the Company that it is a potentially responsible party with respect to environmental remediation. However, after taking into consideration legal counsel s evaluation of all actions and claims against the Company, management is currently of the opinion that their outcome will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

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

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

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

| | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
|---|---|---|---|---|---|---|
| Minimum royalties | $ 1,544 | $ 1,772 | $ 970 | $ 999 | $ 1,029 | $ 1,060 |
| Minimum advertising | 1,837 | 1,941 | 1,999 | 2,059 | 2,121 | 4,434 |

Minimum royalties are based on both fixed obligations and assumptions related to the consumer price index. Royalty payments in excess of minimum requirements are based upon future sales levels and are not included in the above table. In accordance with these agreements, the Company incurred royalty expense of $728 and $1,467, respectively for the 12 and 24 weeks ended June 19, 2010. For the 12 and 24 weeks ended June 20, 2009, the Company incurred royalty expense of $756 and $1,345, respectively.

Table of Contents

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

The terms of certain license agreements also require the Company to make advertising expenditures based on the level of sales. In accordance with these agreements, the Company incurred advertising expense of $669 and $1,281, respectively, for the 12 and 24 weeks ended June 19, 2010. For the 12 and 24 weeks ended June 20, 2009, the Company incurred advertising expense of $492 and $1,049, respectively.

***10. Restructuring and Other Transition Costs***

On January 7, 2009 the Board of Directors of the Company approved a strategic restructuring plan designed to create significant operating efficiencies, improve its supply chain and create a stronger global brand platform. On October 7, 2009, the Company announced that its restructuring plan was expanded to include the consolidation of two owned domestic manufacturing facilities into one and to finalize realignment in certain of the Company s product creation organizations. The strategic restructuring plan and all actions, except for certain cash payments, to be taken under the plan were completed as of June 19, 2010. The Company incurred restructuring and other transition costs of $2,736 ($1,943 on an after-tax basis), or $0.04 per diluted share, and $4,234 ($3,006 on an after-tax basis), or $0.06 per diluted share, for the 12 and 24 weeks ended June 19, 2010. For the 12 and 24 weeks ended June 20, 2009, the Company incurred restructuring and other transition costs of $7,919 ($5,361 on an after-tax basis), or $0.11 per diluted share and $22,377 ($15,149 on an after-tax basis), or $0.31 per diluted share, respectively. In fiscal 2009 the Company incurred restructuring and other transition costs of approximately $35,600, or $0.53 per diluted share.

The following is a summary of the restructuring and other transition costs:

| | **12 Weeks Ended** | | **24 Weeks Ended** | |
|---|---|---|---|---|
| | **June 19, 2010** | June 20, 2009 | **June 19, 2010** | June 20, 2009 |
| Restructuring | **$ 1,823** | $ 5,159 | **$ 2,239** | $ 19,204 |
| Other transition costs | **913** | 2,760 | **1,995** | 3,173 |
| Total restructuring and other transition costs | **$ 2,736** | $ 7,919 | **$ 4,234** | $ 22,377 |

***Restructuring***

The Company incurred the following restructuring charges: $1,823 ($1,294 on an after-tax basis), or $0.03 per diluted share, for the 12 weeks ended June 19, 2010; $2,239 ($1,590 on an after-tax basis), or $0.03 per diluted share, for the 24 weeks ended June 19, 2010; $5,159 ($3,493 on an after-tax basis), or $0.07 per diluted share, for the 12 weeks ended June 20, 2009; and $19,204 ($13,001 on an after-tax basis), or $0.27 per diluted share, for the 24 weeks ended June 20, 2009.

The following is a summary of the activity with respect to a liability established by the Company in connection with the restructuring plan, by category of costs:

| | Severance and employee related | Non-cash charges related to property and equipment | Facility exit costs | Other related restructuring | Total |
|---|---|---|---|---|---|
| Balance at June 20, 2009 | $ 2,384 | $ | $ 666 | $ 65 | $ 3,115 |
| Charges incurred | 4,420 | 1,768 | 1,784 | 1,907 | 9,879 |
| Amounts paid or utilized | (2,938) | (1,768) | (965) | (1,397) | (7,068) |

| | | | | | |
|---|---|---|---|---|---|
| Balance at January 2, 2010 | $ 3,866 | $ | $ 1,485 | $ 575 | $ 5,926 |
| Charges incurred | **571** | **715** | **803** | **150** | **2,239** |
| Amounts paid or utilized | **(3,113)** | **(715)** | **(398)** | **(599)** | **(4,825)** |
| Balance at June 19, 2010 | **$ 1,324** | **$** | **$ 1,890** | **$ 126** | **$ 3,340** |

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

***Other Transition Costs***

Incremental costs incurred related to the restructuring plan that do not qualify as restructuring costs under the provisions of FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, have been included in the Company s consolidated condensed statements of operations on the line titled Restructuring and other transition costs . These primarily include costs related to closure of facilities, new employee training and transition to outsourced services. All costs included in this caption were solely related to the transition and implementation of the restructuring plan and do not include ongoing business operating costs. Other transition costs were $913 ($648 on an after-tax basis), and $1,995 ($1,416 on an after-tax basis) for the 12 and 24 weeks ended June 19, 2010, respectively, and $2,760 ($1,869 on an after-tax basis) and $3,173 ($2,148 on an after-tax basis) for the 12 and 24 weeks ended June 20, 2009, respectively.

***11. Business Acquisitions***

The Company accounted for the following acquisitions under the provisions of FASB ASC Topic 805, *Business Combinations*.

On January 8, 2009, the Company announced the acquisition of the *Cushe*™ footwear brand. The purchase price consisted of $1,477 cash, a $1,477 note payable and contingent consideration of $839. The Company acquired assets valued at $273 (consisting primarily of property, plant and equipment and inventory) and assumed operating liabilities valued at $290, resulting in goodwill and intangibles of $3,810. Amounts recorded relating to the acquisition are subject to changes in foreign currency exchange rates.

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

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

***12. New Accounting Standards***

In April 2009, the FASB issued FASB ASC Topic 825, *Financial Instruments* and ASC Topic 270, *Interim Reporting* ( ASC 825 and ASC 270 ), to require, on an interim basis, disclosures about the fair value of financial instruments for public entities. ASC 825 and ASC 270 are expected to improve the transparency and quality of information provided to financial statement users by increasing the frequency of disclosures about fair value for interim periods as well as annual periods. ASC 825 and ASC 270 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has disclosed the information required by ASC 825 and ASC 270 on an interim basis, and the adoption did not affect the Company s consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued FASB ASC Topic 855, *Subsequent Events* ( ASC 855 ). The objective of this statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855, among other things, sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures an entity should make about events or transactions that occurred after the balance sheet date. In accordance with this statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. The Company adopted ASC 855 in the second quarter of 2009 and the adoption did not affect the Company s consolidated financial position, results of operations or cash flows.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**
**Notes to Consolidated Condensed Financial Statements continued**
**June 19, 2010 and June 20, 2009**
**(Unaudited)**

In June 2009, the FASB issued FASB ASC Topic 105, *Generally Accepted Accounting Principles* ( ASC 105 ). ASC 105 establishes the FASB Accounting Standards Codification™ ( Codification ) as the source of authoritative U.S. generally accepted accounting principles ( GAAP ) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. ASC 105 and the Codification were effective for financial statements issued for interim and annual periods ending after September 15, 2009 (fiscal year ended January 2, 2010 for the Company). The Company adopted this ASC and included the required disclosures in its financial statements.

In January 2010, the FASB issued Accounting Standard Update ( ASU ) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ( ASU No. 2010-06 ). ASU No. 2010-06 amends existing disclosure requirements under ASC 820 by adding required disclosures about items transferring into and out of Levels 1 and 2 in the fair value hierarchy; adding separate disclosures about purchases, sales, issuances and settlements relative to Level 3 measurements; and clarifying the existing fair value disclosures about the level of disaggregation. ASU No. 2010-06 is effective for financial statements issued for interim and annual periods beginning after December 15, 2009 (first quarter 2010 for the Company), except for the requirement to provide Level 3 activity, which is effective for fiscal years beginning after December 15, 2010 (first quarter 2011 for the Company). The Company adopted the applicable disclosure requirements of this ASU in the first quarter of 2010, and the adoption did not affect the Company s consolidated financial position, results of operations or cash flows.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. This ASU, which was effective immediately, removed the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated. The Company adopted this standard in the first quarter of 2010 and the adoption did not affect the Company s consolidated financial position, results of operations or cash flows.

**Table of Contents**

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

### OVERVIEW

### BUSINESS OVERVIEW

Wolverine World Wide, Inc. (the Company ) is a leading global designer, manufacturer and marketer of branded footwear, apparel and accessories. The Company s stated mission is to *Excite Consumers Around the World with Innovative Footwear and Apparel that Bring Style to Purpose*. The Company pursues this mission by offering innovative products and compelling brand propositions, delivering supply chain excellence, complementing its footwear brands with strong apparel and accessories offerings and building a more substantial global consumer-direct footprint.

The Company s portfolio consists of 12 brands that were marketed in approximately 180 countries and territories as of June 19, 2010. The Company controls distribution of its brands into the retail channel via subsidiary operations in the United States, Canada, the United Kingdom and certain other countries in continental Europe. In other markets, the Company relies on a network of third-party distributors and licensees to market its brands. The Company also owned and operated 84 brick-and-mortar retail stores in the United States, Canada and the United Kingdom and operated 28 consumer-direct internet sites as of the end of the second quarter of fiscal 2010.

### FINANCIAL OVERVIEW

Revenue for the second quarter of 2010 was $258.2 million, a 4.8% increase over second quarter 2009 revenue of $246.4 million. Robust organic growth from the portfolio was partially offset by expected lower closeout sales and the delay into the subsequent quarter of a significant shipment to a third-party distributor.

Gross margin for the second quarter of 2010 was 40.2% compared to 37.3% in the second quarter of 2009, driven by a lower percentage of closeout sales, modestly lower product costs and benefits from year-over-year selling price increases.

Diluted earnings per share for the second quarter of 2010 were $0.35 per share compared to $0.16 per share for the same quarter in the prior year.

The Company completed its strategic restructuring plan in the second quarter of 2010. Restructuring and other transition costs in the second quarter reduced diluted earnings per share by $0.04 and $0.11 in 2010 and 2009, respectively.

Accounts receivable increased 0.2% in the second quarter of 2010 compared to the second quarter of 2009. This percentage is considerably below the quarter s revenue increase of 4.8% due to strong cash collections in this year s quarter.

Inventory decreased 7.0% in the second quarter of 2010 compared to the second quarter of 2009, driven by continued success of the Company s strategic inventory control initiatives.

The Company ended the second quarter of 2010 with $110.1 million of cash and cash equivalents, interest-bearing debt of only $1.0 million and zero outstanding on its new $150 million credit facility.

During the second quarter of 2010, the Company repurchased approximately 753,000 shares of its common stock at an average cost of $29.99 per share.

The Company declared a quarterly cash dividend of $0.11 per share in the second quarter of 2010, equal to the dividend declared in the second quarter of 2009.

**Table of Contents**

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

**RESULTS OF OPERATIONS SECOND QUARTER 2010 COMPARED TO SECOND QUARTER 2009**

**FINANCIAL SUMMARY SECOND QUARTER 2010 VERSUS SECOND QUARTER 2009**

| | **2010** | | 2009 | | Change | |
|---|---|---|---|---|---|---|
| *(Millions of dollars, except per share data)* | **$** | **% of Total** | $ | % of Total | $ | % |
| Revenue | | | | | | |
| Branded footwear, apparel and licensing | **$ 225.1** | **87.2%** | $ 218.1 | 88.5% | $ 7.0 | 3.2% |
| Other business units | **33.1** | **12.8%** | 28.3 | 11.5% | 4.8 | 17.0% |
| Total revenue | **$ 258.2** | **100.0%** | $ 246.4 | 100.0% | $ 11.8 | 4.8% |

| | **$** | **% of Revenue** | $ | % of Revenue | $ | % |
|---|---|---|---|---|---|---|
| Gross profit | | | | | | |
| Branded footwear, apparel and licensing | **$ 91.8** | **40.8%** | $ 81.9 | 37.6% | $ 9.9 | 12.1% |
| Other business units | **11.9** | **36.0%** | 10.1 | 35.7% | 1.8 | 17.8% |