

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 8, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-6024

**WOLVERINE WORLD WIDE, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware

38-1185100

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

There were 45,393,320 shares of Common Stock, \$1 par value, outstanding as of October 12, 2001, of which 3,857,003 shares are held as Treasury Stock.

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the footwear business, worldwide economics and about the Company itself including, without limitation, statements in Part 1, Item 2 regarding the sourcing realignment charge and the Company's financial condition, liquidity and capital resources and statements in Part 1, 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 impact of competition and pricing by the Company's competitors; changes in government and regulatory policies; changes in trading policies or import and export regulations; changes in interest rates, tax laws, duties or applicable assessments; technological developments; changes in local, domestic or international economic and market conditions; the size and growth of footwear markets; 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; changes in business strategy or development plans; and the ability to attract and retain qualified personnel. Additionally, recent events relating to the terrorist attacks on September 11 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 Risk Factors could have a material adverse impact on the Company's financial

condition and results of operations as well as the footwear and retail industries generally. 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 8, 2001 (Unaudited)	December 30, 2000 (Audited)	September 9, 2000 (Unaudited)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 2,934	\$ 8,434	\$ 2,564
Accounts receivable, less allowances			
September 8, 2001 - \$6,739			
December 30, 2000 - \$6,147			
September 9, 2000 - \$5,035	184,640	161,957	180,412
Inventories:			
Finished products	155,262	114,855	136,426
Raw materials and work in process	30,203	29,337	38,473
	185,465	144,192	174,899
Other current assets	10,574	10,503	13,555
<b>TOTAL CURRENT ASSETS</b>	<b>383,613</b>	<b>325,086</b>	<b>371,430</b>
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>			
Gross cost	211,457	216,743	205,937
Less accumulated depreciation	113,137	114,078	105,782
	98,320	102,665	100,155

OTHER ASSETS	69,017	66,817	70,125
TOTAL ASSETS	\$ 550,950	\$ 494,568	\$ 541,710

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 8, 2001 (Unaudited)	December 30, 2000 (Audited)	September 9, 2000 (Unaudited)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Notes payable	\$ 2,340	\$ 896	\$ 231
Accounts payable and other accrued liabilities	54,037	48,792	47,073
Current maturities of long-term debt	4,316	4,316	4,370
<b>TOTAL CURRENT LIABILITIES</b>	<b>60,693</b>	<b>54,004</b>	<b>51,674</b>
LONG-TERM DEBT (less current maturities)	115,574	87,878	147,748
OTHER NONCURRENT LIABILITIES	15,753	15,448	18,559
<b>STOCKHOLDERS' EQUITY</b>			
Common Stock - par value \$1, authorized 80,000,000 shares; shares issued (including shares in treasury):			
September 8, 2001 -- 45,397,804 shares			
December 30, 2000 -- 44,785,009 shares			
September 9, 2000 -- 44,762,514 shares	45,398	44,785	44,763
Additional paid-in capital	84,761	79,633	79,438
Retained earnings	284,376	260,158	247,827
Accumulated other comprehensive loss	(3,253)	(2,532)	(2,945)
Unearned compensation	(5,716)	(5,921)	(6,788)
Cost of shares in treasury:			
September 8, 2001 -- 3,757,003 shares			
December 30, 2000 -- 3,125,952 shares			
September 9, 2000 -- 3,205,341 shares	(46,636)	(38,885)	(38,566)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>358,930</b>	<b>337,238</b>	<b>323,729</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	550,950	\$	494,568	\$	541,710
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( ) - Denotes deduction.

See notes to consolidated condensed financial statements

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS**  
**OF OPERATIONS**

(Thousands of dollars, except shares and per share data)  
(Unaudited)

	12 Weeks Ended		36 Weeks Ended	
	September 8, 2001	September 9, 2000	September 8, 2001	September 9, 2000
NET SALES AND OTHER OPERATING INCOME	\$ 186,175	\$ 175,529	\$ 496,097	\$ 463,457
Cost of products sold	118,377	128,496	319,704	319,333
GROSS MARGIN	67,798	47,033	176,393	144,124
Selling and administrative expenses	44,129	56,651	127,091	131,044
OPERATING INCOME (LOSS)	23,669	(9,618)	49,302	13,080
OTHER EXPENSES (INCOME):				
Interest expense	1,831	2,088	5,121	6,976
Interest income	(34)	(81)	(207)	(229)
Other -- net	106	12,133	140	11,869
	1,903	14,140	5,054	18,616
EARNINGS (LOSS) BEFORE INCOME TAXES	21,766	(23,758)	44,248	(5,536)
Income taxes (credit)	7,402	(8,278)	15,046	(2,447)
NET EARNINGS (LOSS)	\$ 14,364	\$ (15,480)	\$ 29,202	\$ (3,089)
NET EARNINGS (LOSS) PER SHARE:				

Basic	\$	.35	\$	(.38)	\$	.72	\$	(.08)
Diluted	\$	.34	\$	(.37)	\$	.69	\$	(.07)
CASH DIVIDENDS PER SHARE	\$	.040	\$	.035	\$	.120	\$	.105

SHARES USED FOR NET EARNINGS

(LOSS) PER SHARE COMPUTATION:

Basic	40,750,889	40,635,243	40,734,582	40,590,320
Diluted	42,657,456	41,555,349	42,561,694	41,505,315

See notes to consolidated condensed financial statements

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS  
OF STOCKHOLDERS' EQUITY

(Thousands of dollars, except share data)  
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Unearned Compensation	Cost of Shares in Treasury	Total
Balances at December 30, 2000	\$ 44,785	\$ 79,633	\$ 260,158	\$ (2,532)	\$ (5,921)	\$ (38,885)	\$ 337,238
Comprehensive gain (loss):							
Net earnings			29,202				29,202
Dividends			(4,984)				(4,984)
Purchase of 524,831 shares of common stock for treasury						(7,751)	(7,751)
Issuance of common stock under stock option plans	613	5,128			(2,024)		3,717
Amortization of unearned compensation					2,229		2,229
Foreign currency translation adjustments				(721)			(721)
Balances at September 8, 2001	\$ 45,398	\$ 84,761	\$ 284,376	\$ (3,253)	\$ (5,716)	\$ (46,636)	\$ 358,930

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
(Thousands of dollars)  
(Unaudited)

	36 Weeks Ended	
	September 8, 2001	September 9, 2000
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ 29,202	\$ (3,089)
Adjustments necessary to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation	11,780	11,962
Amortization	1,100	835
Other non-cash items	(3,404)	(3,245)
Realignment and other nonrecurring charges		41,146
Changes in operating assets and liabilities:		
Accounts receivable	(22,683)	(15,430)
Inventories	(41,273)	(17,826)
Other assets	1,846	(4,443)
Accounts payable and other accrued liabilities	5,245	(9,662)
	(18,187)	248
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(7,665)	(6,919)
Other	230	(466)
	(7,435)	(7,385)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	105,000	103,744
Payments of long-term debt	(77,304)	(90,827)
Net increase in short-term debt	1,444	83
Cash dividends	(4,984)	(4,349)
Purchase of common stock for treasury	(7,751)	(816)
Proceeds from shares issued under stock incentive plans	3,717	420
	20,122	8,255
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
	(5,500)	1,118
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		

Cash and cash equivalents at beginning of the period		8,434		1,446
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$	2,934	\$	2,564

( ) -- 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 8, 2001 and September 9, 2000**

**1. 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 complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring accruals) considered necessary for fair presentation have been included in the accompanying financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2000. Certain amounts previously reported in 2000 have been reclassified to conform with the presentation used in 2001.

**2. Fluctuations**

The Company's sales are seasonal. Seasonal sales patterns and the fact that the fourth quarter has sixteen or seventeen weeks as compared to twelve weeks in each of the first three quarters can cause significant differences in sales and earnings from quarter to quarter. These differences, however, have followed a consistent pattern each year.

**3. Sourcing Realignment and Other Nonrecurring Charges**

As discussed in the Annual Report on Form 10-K for the fiscal year ended December 30, 2000, the Company initiated a strategic realignment of its global sourcing and manufacturing operations on July 12, 2000. In connection with this realignment, the Company closed five of its manufacturing facilities in New York, Missouri, Canada, Puerto Rico and Costa Rica. The Company also eliminated certain footwear product offerings and related raw material inventories, reduced administrative support services and incurred other nonrecurring expenses in connection with the strategic realignment. The realignment activities were primarily completed in the third and fourth quarters of 2000.

Remaining liabilities associated with the sourcing realignment include pension benefits for certain terminated employees of \$2,531,204 to be paid during their retirement and lease termination costs of \$177,675 that are payable through 2004.

**4. Net 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 8, 2001	September 9, 2000	September 8, 2001	September 9, 2000
Weighted average shares outstanding	41,577,056	41,555,349	41,575,668	41,505,315
Adjustment for nonvested common stock	(826,167)	(920,106)	(841,086)	(914,995)
Denominator for basic earnings per share	40,750,889	40,635,243	40,734,582	40,590,320
Effect of dilutive stock options	1,080,400		986,026	
Adjustment for nonvested common stock	826,167	920,106	841,086	914,995
Denominator for diluted earnings per share	42,657,456	41,555,349	42,561,694	41,505,315

Diluted net earnings (loss) per share for periods with a net loss do not include the effect of employee stock options since such inclusion would be antidilutive.

**WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**September 8, 2001 and September 9, 2000**

**5. Comprehensive Income (Loss)**

Total comprehensive income was \$14,785,000 and \$28,481,000 for the 12-week and 36-week periods ended September 8, 2001, respectively. Total comprehensive loss was \$16,365,000 and \$5,420,000 for the 12-week and 36-week periods ended September 9, 2000, respectively. In addition to net earnings, comprehensive income included foreign currency translation gains of \$421,000 and losses of \$721,000 for the 12-week and 36-week periods ended September 8, 2001, respectively, and losses of \$885,000 and \$2,331,000 for the 12-week and 36-week periods ended September 9, 2000, respectively.

**6. Business Segments**

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

The other business units in the following table consist of the Company's retail, apparel and accessories, tannery and procurement operations. The Company operated 63 domestic retail stores at September 8, 2001 that sell Company-manufactured or sourced products and footwear manufactured by unaffiliated companies. The other business units distribute products through retail and wholesale channels.

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

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

	<b>Branded Footwear</b>	<b>Other Businesses</b>	<b>Corporate</b>	<b>Consolidated</b>
<b>12 weeks ended September 8, 2001</b>				
Net sales and other operating income				
from external customers	\$ 169,773	\$ 16,402		\$ 186,175
Intersegment sales	4,883	1,077		5,960
Earnings (loss) before income taxes	23,191	832	\$ (2,257)	21,766
<b>36 weeks ended September 8, 2001</b>				
Net sales and other operating income				
from external customers	\$ 444,265	\$ 51,832		\$ 496,097
Intersegment sales	12,675	3,773		16,448
Earnings (loss) before income taxes	47,288	3,532	\$ (6,572)	44,248



	Branded Footwear	Other Businesses	Corporate	Consolidated
12 weeks ended September 9, 2000				
Net sales and other operating income				
from external customers	\$ 157,649	\$ 17,880		\$ 175,529
Intersegment sales	3,946	1,101		5,047
Earnings (loss) before income taxes	(24,582)	1,554	\$ (730)	(23,758)
36 weeks ended September 9, 2000				
Net sales and other operating income				
from external customers	\$ 412,579	\$ 50,878		\$ 463,457
Intersegment sales	11,808	4,272		16,080
Earnings (loss) before income taxes	(9,335)	4,236	\$ (437)	(5,536)

## **7. Financial Instruments and Risk Management**

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138. The standard 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 purchases in the normal course of business. These contracts typically have maturities of less than one year and are not designated as accounting hedges. Subsequent changes in the fair value of these contracts were not significant during the 12-week and 36-week periods ended September 8, 2001. The adoption of SFAS No. 133 did not have a material effect on the Company's earnings or statement of financial position.

## **8. Goodwill and Other Intangible Assets**

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," effective for the Company as of December 30, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning on December 30, 2001. Application of the nonamortization provisions of the Statements is expected to result in an increase in net income of approximately \$1,070,000 per year. The Company also will perform the first of the required impairment tests of goodwill as of December 30, 2001, but has preliminarily determined that the effect of these tests on the earnings and financial position of the Company will not be significant.

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

### **Results of Operations - Comparisons of the 12 Weeks and 36 Weeks Ended September 8, 2001 (2001 third quarter and 2001 year-to-date, respectively) to the 12 Weeks and 36 Weeks Ended September 9, 2000 (2000 third quarter and 2000 year-to-date, respectively)**

Net sales and other operating income of \$186.2 million for the 2001 third quarter exceeded the 2000 third quarter level of \$175.5 million by \$10.7 million (6.1%) and 2001 year-to-date net sales and other operating income of \$496.1 million exceeded the 2000 year-to-date level of \$463.5 million by \$32.6 million (7.0%). On a combined basis, net sales and other operating income for the Company's branded footwear businesses, consisting of the Casual Footwear Group (comprised of The Hush Puppies Company, the Children's Footwear Group and the Wolverine Slipper Group), the Wolverine Footwear Group (comprised of the Wolverine®, HYTEST®, Stanley®, Coleman®, Bates® and Harley-Davidson® brands), and the Performance Footwear Group (comprised of the Caterpillar® and Merrell® brands), increased \$12.1 million (7.7%) for the 2001 third quarter and \$31.7 million (7.7%) for 2001 year-to-date as compared to the respective periods of 2000. The Company's other business units, consisting of Wolverine Retail, Apparel and Accessories Licensing, Wolverine Leathers and Wolverine Procurement, reported a net sales and other operating income decrease of \$1.5 million (8.3%) for the 2001 third quarter and a \$1.0 million decrease (1.9%) for 2001 year-to-date as compared to the respective periods of 2000.

The Casual Footwear Group reported a decrease in net sales and other operating income of \$6.2 million (11.8%) in the 2001 third quarter and a

\$17.6 million (13.3%) decrease for 2001 year-to-date when compared to the same periods in 2000. The Hush Puppies Company's 2001 third quarter and year-to-date net sales and other operating income decreased from the 2000 levels as Hush Puppies U.S. experienced soft sales as a result of a weak retail environment and related inventory reductions by its customers. Hush Puppies U. K.'s 2001 third quarter net sales and other operating income increased 8.2% as compared to the same period in 2000 due to improved product offerings and heightened consumer demand. Year-to-date 2001 net sales and other operating income for Hush Puppies U. K. declined from prior period levels due to the loss of its largest customer that transitioned its business to the discount retail market, which is not serviced by the Company. The Children's Footwear Group also experienced a decrease in net sales and other operating income for the 2001 third quarter and year-to-date as a result of losing one major customer and a number of other customers that exited the childrens' footwear business. The Wolverine Slipper Group's 2001 third quarter and year-to-date net sales and other operating income decreased compared to the same periods in 2000 resulting, in part, from a shift in the timing of shipments for early 2000 orders.

The Wolverine Footwear Group's net sales and other operating income increased \$4.8 million (7.4%) for the 2001 third quarter as compared to 2000 and \$16.9 million (9.5%) for 2001 year-to-date over 2000 year-to-date. Wolverine®, Harley-Davidson® and Stanley® footwear contributed the majority of this increase as the brands enjoyed increased consumer demand and wider distribution in the marketplace. These increases were partially offset by the HYTEST® work boot wholesale business, which reported a decrease in net sales and other operating income as compared to the 2000 third quarter and year-to-date levels. Declines in net sales and other operating income are primarily a result of decreased shipments to independent mobile shoe distributors that historically sold only HYTEST® brand product, but now also sell Wolverine®, CAT® and Stanley® brand work boots. Net sales and other operating income for the Bates® brand is down slightly due primarily to the timing of contract awards from the Department of Defense.

The Performance Footwear Group continued its strong growth, reporting an increase in net sales and other operating income of \$13.5 million (34.7%) for the 2001 third quarter and \$32.4 million (31.8%) for 2001 year-to-date over the same periods of 2000. The Merrell® outdoor footwear business accounted for the increase in net sales and other operating income as a result of new product offerings and the expansion of its domestic and international distribution. CAT® footwear reported a decrease in both the U.S. wholesale and international markets in net sales and other operating income for the 2001 third quarter and the 2001 year-to-date as compared to the respective periods of 2000 due to poor retail conditions and a loss of distribution from the closure of certain key retailers.

Within the Company's other business units, Wolverine Retail's net sales and other operating income decreased \$0.3 million (2.7%) for the 2001 third quarter and \$0.7 million (2.5%) for 2001 year-to-date as compared to the same periods of 2000. The Wolverine Leathers and Wolverine Procurement divisions recorded a decrease in net sales and other operating income of \$1.2 million from the 2000 third quarter and an increase of \$0.1 million over the 2000 year-to-date level. The 2001 third quarter decrease relates primarily to reduced demand for sueded leather for footwear.

As discussed in Note 3 of the consolidated condensed financial statements, on July 12, 2000, the Company announced a strategic realignment of its global sourcing and manufacturing operations. In connection with this realignment, the Company closed manufacturing facilities in New York, Missouri, Canada, Costa Rica and Puerto Rico. Remaining liabilities associated with the sourcing realignment include pension benefits for certain terminated employees and lease termination costs. A non-recurring, pre-tax charge to earnings of \$41.1 million was recorded in the 2000 third quarter, of which \$11.7 million was reflected in cost of products sold for inventory write-downs, \$17.0 million was recognized in selling and administrative expenses for severance, bad debt, and a portion of other expenses, and \$12.4 million was recorded in other expense for the loss on disposal of fixed assets, goodwill impairment and other exit costs. The realignment charge resulted in a reduction of earnings of \$0.65 per share for the 2000 third quarter and 2000 year-to-date.

The following table summarizes the 2001 results and the effect of the nonrecurring charges on certain components of the Company's 2000 third quarter and year-to-date operating results (thousands of dollars, except per share data; percentages relate to total net sales and other operating income):

	2001		Results Excluding		Effect of		Results	
	Results As Reported		Nonrecurring Charges		Nonrecurring Charges	Results As Reported		
	\$	%	\$	%	\$	\$	%	
<b>Gross Margin</b>								
Third quarter	\$ 67,798	36.4%	\$ 58,721	33.5%	\$ 11,688	\$ 47,033	26.8%	
Year-to-date	176,393	35.6%	155,812	33.6%	11,688	144,124	31.1%	
<b>Selling and Administrative Expenses</b>								
Third quarter	44,129	23.7%	39,557	22.6%	17,054	56,651	32.2%	
Year-to-date	127,091	25.6%	113,990	24.6%	17,054	131,044	28.3%	
<b>Other Expenses</b>								
Third quarter	1,903	1.0%	1,736	1.0%	12,404	14,140	8.1%	

Year-to-date	5,054	1.0%	6,212	1.3%	12,404	18,616	4.0%
<b><u>Earnings (Loss) Before</u></b>							
<b><u>Income Taxes</u></b>							
Third quarter	21,766	11.7%	17,388	9.9%	41,146	(23,758)	-13.5%
Year-to-date	44,248	8.9%	35,610	7.7%	41,146	(5,536)	-1.2%
<b><u>Net Earnings (Loss)</u></b>							
Third quarter	14,364	7.7%	11,650	6.6%	27,130	(15,480)	-8.8%
Year-to-date	29,202	5.9%	24,041	5.2%	27,130	(3,089)	-0.7%
<b><u>Diluted Earnings (Loss)</u></b>							
<b><u>Per Share</u></b>							
Third quarter	\$ .34		\$ .28		\$ (.65)	\$ (.37)	
Year-to-date	.69		.58		(.65)	(.07)	

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The analysis in the following paragraph excludes the realignment and other nonrecurring charges in 2000. Gross margin as a percentage of net sales and other operating income for the 2001 third quarter was 36.4%, compared to 33.5% for the 2000 third quarter. The 2001 year-to-date gross margin of 35.6% compares to 33.6% for the same period in 2000. Gross margin dollars increased \$9.1 million or 15.5% for the 2001 third quarter and \$20.6 million or 13.2% for 2001 year-to-date as compared to the same periods of 2000, respectively. The gross margin percentages for the branded footwear businesses were 36.3% for the 2001 third quarter and 35.4% for 2001 year-to-date as compared to 33.0% and 33.1% for the same periods of 2000, respectively. The margin increases for the branded footwear businesses reflect a larger mix of high margin Merrell® and Harley-Davidson® sales and improved initial margins from the Hush Puppies U.S. wholesale operation and the Wolverine Slipper Group in 2001 as compared to 2000. The benefits realized from the 2000 sourcing realignment also contributed to the margin increase. The gross margin percentage for the other business units increased slightly to 38.1% for the 2001 third quarter from 37.9% for the same period of 2000 and decreased to 36.9% for 2001 year-to-date compared to 37.7% for 2000 year-to-date as a result of increased raw material costs associated with the tannery operations.

The analysis in the following paragraph excludes the realignment and other nonrecurring charges in 2000. Selling and administrative expenses of \$44.1 million for the 2001 third quarter increased \$4.5 million from the 2000 third quarter level of \$39.6 million and, as a percentage of net sales and other operating income, increased to 23.7% in 2001 compared to 22.6% in the 2000 third quarter. Selling and administrative expenses for 2001 year-to-date increased \$13.1 million to \$127.1 million from \$114.0 million for the same period of 2000 and, as a percentage of net sales and other operating income, increased to 25.6% in 2001 compared to 24.6% for 2000 year-to-date. The change in the year-to-date selling and administrative expenses includes increases of \$3.1 million in advertising costs, \$7.8 million in selling and administration costs for expansion of the Merrell®, Stanley® and Harley-Davidson® brands and \$3.1 million in employee benefit program costs.

Interest expense for the 2001 third quarter was \$1.8 million, compared to \$2.1 million for the same period of 2000. Interest expense for 2001 and 2000 year-to-date was \$5.1 million and \$7.0 million, respectively. The decrease in interest expense for 2001 year-to-date reflects lower average borrowings as compared to 2000 year-to-date and lower interest rates on the Company's borrowings under its revolving credit facility.

The analysis in the following paragraph excludes the realignment and other nonrecurring charges in 2000. The 2001 third quarter and year-to-date effective tax rate of 34.0% compares to 33.0% for the respective periods in the prior year. The increase in the 2001 effective tax rate over 2000 relates to a higher percentage of income being generated in jurisdictions with relatively higher tax rates.

The analysis in the following paragraph excludes the realignment and other nonrecurring charges in 2000. Net earnings of \$14.4 million for the 2001 third quarter compares to net earnings of \$11.7 million for the same period in 2000. The 2001 year-to-date net earnings increased to \$29.2 million in 2001 from \$24.0 million for the same period of 2000. Diluted earnings per share were \$0.34 and \$0.69 for the 2001 third quarter and 2001 year-to-date, respectively compared to \$0.28 and \$0.58 for the same periods of 2000, respectively.

#### **Financial Condition, Liquidity and Capital Resources**

Net cash used in operating activities was \$18.2 million for 2001 year-to-date compared to \$0.2 million provided by operating activities for 2000 year-to-date. Cash of \$56.9 million for 2001 year-to-date and \$47.4 million for 2000 year-to-date was used to fund working capital requirements. Accounts receivable of \$184.6 million at September 8, 2001 reflects an increase of \$4.2 million (2.3%) from the balance at September 9, 2000 and an increase of \$22.7 million (14.0%) from the December 30, 2000 balance. Inventories of \$185.5 million at September 8, 2001 reflect an increase of \$10.6 million (6.0%) compared to the balance at September 9, 2000 and an increase of \$41.3 million (28.6%) over the balance at December 30, 2000, reflecting consistent seasonal trends. Accounts payable and other accrued liabilities of \$54.0 million at September 8, 2001 reflect a \$6.9 million (14.8%) increase over the \$47.1 million balance at September 9, 2000 and a \$5.2 million (10.7%) increase from the \$48.8 million balance at December 30, 2000. The increase in accounts payable and other accrued liabilities compared to the 2000 third quarter level was primarily attributable to income taxes payable resulting from higher earnings in 2001 as compared to 2000.

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Additions to property, plant and equipment of \$7.7 million for 2001 year-to-date compares to \$6.9 million reported for the same period of 2000. This increase occurred because the Company's planned purchases were made in different periods in 2001 as compared to 2000. Depreciation and amortization expense was \$12.9 million for 2001 year-to-date compared to \$12.8 million for the same period of 2000.

The Company maintains short-term borrowing and commercial letter-of-credit facilities of \$66.4 million, of which \$35.0 million, \$27.9 million and \$27.0 million were outstanding at September 8, 2001, September 9, 2000 and December 30, 2000, respectively. Long-term debt, excluding current maturities, of \$115.6 million at September 8, 2001 compares to \$147.7 million and \$87.8 million at September 9, 2000 and December 30, 2000, respectively. The decrease in debt at September 8, 2001 as compared to September 9, 2000 resulted from improved operating cash flows that provided funds to pay down amounts borrowed under the revolving credit facility.

The Company has long-term revolving credit facilities of \$110.0 million expiring in May 2006. The revolving credit facilities are used to support working capital requirements. The combination of credit facilities and cash flows from operations is expected to be sufficient to meet future capital needs in the foreseeable future. Any excess cash flows from operations are expected to be used to pay down existing debt, fund growth initiatives and repurchase the Company's common stock under the repurchase program as discussed in the following paragraph.

Effective October 3, 2000, the Company's Board of Directors approved a common stock repurchase program authorizing the repurchase of up to 2.0 million shares of common stock over 24 months. The primary purpose of this stock repurchase program is to increase stockholder value. There were no shares repurchased during the 2001 third quarter and 395,500 total cumulative common shares were repurchased under the program through September 8, 2001. The Company intends to continue to repurchase shares of its common stock in open market transactions, from time to time, depending upon market conditions and other factors.

The 2001 third quarter dividend declared of \$.04 per share of common stock represents a 14.3% increase over the \$.035 per share declared in the 2000 third quarter. The dividend is payable November 1, 2001 to stockholders of record on October 1, 2001.

The current ratio was 6.3 to 1.0 for the 2001 third quarter compared with 7.2 to 1.0 for the same period of 2000. The Company's total debt to total capital ratio decreased to 0.25 to 1.0 for the 2001 third quarter from 0.32 to 1.0 for the same period of 2000.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

The information concerning quantitative and qualitative disclosures about market risk contained in the Company's Form 10-K Annual Report for its fiscal year ended December 30, 2000, 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.

## **PART II. OTHER INFORMATION**

### **ITEM 6. Exhibits and Reports on Form 8-K**

- (a) Exhibits. The following documents are filed as exhibits to this report on Form 10-Q:

Exhibit  
Number

Document

- 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 June 14, 1997. Here incorporated by reference.

3.2 Amended and Restated Bylaws. Previously filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 1999. Here incorporated by reference.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the period covered by this report.

**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 23, 2001

/s/ Timothy J. O'Donovan

\_\_\_\_\_  
Date

\_\_\_\_\_  
Timothy J. O'Donovan  
President and Chief Executive Officer  
(Duly Authorized Signatory for Registrant)

October 23, 2001

/s/ Stephen L. Gulis, Jr.

\_\_\_\_\_  
Date

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

October 23, 2001

/s/ Nicholas P. Ottenwess

\_\_\_\_\_  
Date

\_\_\_\_\_  
Nicholas P. Ottenwess  
Vice President of Finance and Corporate Controller  
(Principal Accounting Officer and Duly Authorized  
Signatory for Registrant)

Exhibit  
Number

Document

- 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 June 14, 1997. Here incorporated by reference.
- 3.2 Amended and Restated Bylaws. Previously filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 1999. Here incorporated by reference.