

WOLVERINE WORLD WIDE INC /DE/

Form 10-K

February 29, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2011

¨ 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: 001-6024

**WOLVERINE WORLD WIDE, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

9341 Courtland Drive N.E.,  
Rockford, Michigan  
(Address of principal executive offices)

Registrant's telephone number, including area code: (616) 866-5500

38-1185150  
(I.R.S. Employer  
Identification No.)

49351  
(Zip Code)

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## Securities registered pursuant to Section 12(b) of the Securities Exchange Act:

| Title of each class         | Name of each exchange on which registered |
|-----------------------------|---|
| Common Stock, \$1 Par Value | New York Stock Exchange                   |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant based on the closing price on the New York Stock Exchange on June 17, 2011, the last business day of the registrant's most recently completed second fiscal quarter: \$1,851,731,010. Number of shares outstanding of the registrant's Common Stock, \$1 par value as of February 24, 2012: 48,662,725.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's annual stockholders' meeting to be held April 19, 2012 are incorporated by reference into Part III of this report.

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**FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements, which are statements relating to future, not past, events. In this context, forward-looking statements often address management's current beliefs, assumptions, expectations, estimates and projections about future business and financial performance, global political, economic and market conditions, and the Company itself. Such statements often contain words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, predicts, projects, should, will, variations of such words, and Forward-looking statements, by their nature, address matters that are, to varying degrees, uncertain. Uncertainties that could cause the Company's performance to differ materially from what is expressed in forward-looking statements include, but are not limited to, the following:

changes in national, regional or global economic and market conditions;

the impact of financial and credit markets on the Company, its suppliers and customers;

changes in interest rates, tax laws, duties, tariffs, quotas or applicable assessments in countries of import and export;

the impact of regulation, regulatory and legal proceedings, and legal compliance risks;

currency fluctuations;

changes in future pension funding requirements or pension expenses;

the risks of doing business in developing countries, and politically or economically volatile areas;

the ability to secure and protect owned intellectual property or use licensed intellectual property;

changes in consumer preferences, spending patterns, buying patterns, price sensitivity or demand for the Company's products;

changes in relationships with, including the loss of, significant customers;

the cancellation of orders for future delivery;

the failure of the Department of Defense to exercise future purchase options or award new contracts, or the cancellation or modification of existing contracts by the Department of Defense or other military purchasers;

the cost, availability and management of raw materials, inventories, services and labor for owned and contract manufacturers;

service interruptions at shipping and receiving ports;

the inability for any reason to effectively compete in global footwear, apparel and consumer-direct markets;

strategic actions, including new initiatives and ventures, acquisitions and dispositions, and our success in integrating acquired businesses and implementing new initiatives and ventures; and

many other matters of national, regional and global scale, including those of a political, environmental, economic, business and competitive nature.

These uncertainties could cause a material difference between a forward-looking statement and an actual outcome. The uncertainties included here are not exhaustive and are described in more detail in Part I, Item 1A, Risk Factors of this Annual Report on Form 10-K. The Company does not undertake an obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

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**PART I**

**Item 1. Business**

**General**

Wolverine World Wide, Inc. (the Company) is a leading designer, manufacturer and marketer of a broad range of quality casual footwear and apparel, performance outdoor footwear and apparel, industrial work shoes, boots and apparel, and uniform shoes and boots. The Company, a Delaware corporation, is the successor of a Michigan corporation of the same name, originally organized in 1906, which, in turn, was the successor of a footwear business established in Grand Rapids, Michigan in 1883.

Approximately 52 million pairs/units of the Company's branded footwear and apparel were sold in the fiscal year ended December 31, 2011 (fiscal year 2011) in more than 190 countries and territories around the world. The Company's products generally feature contemporary styling with proprietary technologies designed to provide maximum comfort and performance. The products are marketed under widely recognized brand names, including *Bates*®, *Cat*® Footwear, *Chaco*®, *Cushe*®, *Harley-Davidson*® Footwear, *Hush Puppies*®, *HyTest*®, *Merrell*®, *Patagonia*® Footwear, *Sebago*®, *Soft Style*® and *Wolverine*®. The Company believes that its primary competitive advantages are its well-recognized brand names, its patented proprietary designs and comfort technologies, its wide range of distribution channels and its diversified manufacturing and sourcing base. *Cat*® is a registered trademark of Caterpillar, Inc., *Harley-Davidson*® is a registered trademark of H-D Michigan, Inc. and *Patagonia*® is a registered trademark of Patagonia, Inc.

The Company's brands are sold at various price points targeting a wide range of consumers of casual, work and outdoor footwear and apparel. The Company also licenses some of its brands for use on products other than footwear or apparel. The Company has one reportable segment that is engaged in designing, manufacturing, sourcing, marketing, licensing and distributing branded footwear, apparel and accessories. In January 2011, the Company realigned the operating groups included in the branded footwear, apparel and licensing reportable segment. As a result, the Company now identifies three operating groups within its reportable segment: (i) the **Outdoor Group**, consisting of *Merrell*®, *Patagonia*® and *Chaco*® footwear, and *Merrell*® brand apparel and accessories, (ii) the **Heritage Group**, consisting of *Wolverine*® boots and shoes and *Wolverine*® brand apparel, and *Cat*® footwear, *Bates*®, *Harley-Davidson*® footwear and *HyTest*® footwear, and (iii) the **Lifestyle Group**, consisting of *Hush Puppies*® footwear and apparel, *Sebago*® footwear and apparel, and *Cushe*® and *Soft Style*® footwear.

The Company's Global Operations Group is responsible for manufacturing, sourcing, distribution and customer support. The Company directly sells its products in the United States, Canada and certain countries in Europe to a wide range of retail customers, including department stores, national chains, catalogs, specialty retailers, mass merchants and Internet retailers, and to governments and municipalities. Many of the retailers carrying Wolverine products operate multiple storefront locations. The Company's products are marketed worldwide in more than 190 countries and territories through Company-owned wholesale and retail operations, licensees and distributors.

For financial information regarding the Company, see the consolidated financial statements and the accompanying notes, which are attached as Appendix A to this Annual Report on Form 10-K. As described above, the Company has one reportable segment, branded footwear, apparel and licensing. The Company's other operating groups consist of its consumer-direct operations and leathers operations, which are described below. Financial information regarding the Company's reportable segment and other operating groups and financial information by geographic area is found in Note 9 to the consolidated financial statements of the Company that are attached as Appendix A to this Annual Report on Form 10-K.

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### **Branded Footwear, Apparel and Licensing**

The Company sources and markets a broad range of footwear styles, including shoes, boots and sandals under many recognizable brand names, including *Bates*<sup>®</sup>, *Cat*<sup>®</sup>, *Chaco*<sup>®</sup>, *Cushe*<sup>®</sup>, *Harley-Davidson*<sup>®</sup>, *Hush Puppies*<sup>®</sup>, *HyTest*<sup>®</sup>, *Merrell*<sup>®</sup>, *Patagonia*<sup>®</sup>, *Sebago*<sup>®</sup>, *Soft Style*<sup>®</sup> and *Wolverine*<sup>®</sup>. The Company combines quality materials and skilled workmanship to produce footwear according to its specifications at both Company-owned and third-party manufacturing facilities. The Company also markets *Merrell*<sup>®</sup>, *Sebago*<sup>®</sup>, and *Wolverine*<sup>®</sup> brand apparel and accessories and licenses some of its brands for use on non-footwear products, including *Hush Puppies*<sup>®</sup> apparel, eyewear, watches, socks, handbags and plush toys and *Wolverine*<sup>®</sup> brand eyewear and gloves.

The Company's branded footwear, apparel and licensing operating groups for fiscal year 2011 are described below.

1. **The Outdoor Group** The Outdoor Group consists of *Merrell*<sup>®</sup> footwear, *Merrell*<sup>®</sup> apparel and accessories, *Patagonia*<sup>®</sup> footwear and *Chaco*<sup>®</sup> footwear.

***Merrell*<sup>®</sup> Footwear:** *Merrell*<sup>®</sup> footwear is designed to inspire and encourage everyone to increase participation in the outdoors. Known for quality, durability and comfort, the *Merrell*<sup>®</sup> footwear line uses a variety of proprietary designs and technologies to create footwear with unique styling, performance and comfort features for the trail or the town. *Merrell*<sup>®</sup> footwear products offer a wide range of styles from technical hiking, multi-sport footwear and the minimalist *Merrell*<sup>®</sup> Barefoot Collection to versatile, lifestyle product for more casual outdoor adventures for men, women and kids. *Merrell*<sup>®</sup> footwear products are sold primarily through outdoor specialty retailers, sporting goods chains, department stores, on-line retailers and catalogs. *Merrell*<sup>®</sup> footwear is marketed in approximately 150 countries and territories worldwide.

***Merrell*<sup>®</sup> Apparel and Accessories:** The *Merrell*<sup>®</sup> apparel line extends the *Merrell*<sup>®</sup> commitment to an active outdoor lifestyle with a versatile line of apparel built for the summit or the street. The apparel line features stylized lifestyle silhouettes built with the technical, high performance, weather fighting materials that consumers expect from an outdoor brand. In addition to *Merrell*<sup>®</sup> apparel, the Outdoor Group markets *Merrell*<sup>®</sup> accessories, including packs, bags and luggage for men and women.

***Patagonia*<sup>®</sup> Footwear:** Pursuant to an agreement with Lost Arrow Corporation, the Company has the exclusive footwear marketing and distribution rights under *Patagonia*<sup>®</sup> and other trademarks. The *Patagonia*<sup>®</sup> footwear line focuses primarily on casual and outdoor performance footwear. *Patagonia*<sup>®</sup> is a registered trademark of Patagonia, Inc.

***Chaco*<sup>®</sup> Footwear:** The *Chaco*<sup>®</sup> footwear line focuses primarily on performance sandals and closed-toe products for the outdoor enthusiast.

2. **The Heritage Group** The Heritage Group markets footwear, apparel and accessories products under the *Wolverine*<sup>®</sup> brand and footwear under the *Cat*<sup>®</sup>, *Bates*<sup>®</sup>, *Harley-Davidson*<sup>®</sup> and *HyTest*<sup>®</sup> brands.

***Wolverine*<sup>®</sup> Footwear:** The *Wolverine*<sup>®</sup> brand offers high quality boots and shoes that incorporate innovative technologies to deliver comfort and durability. The *Wolverine*<sup>®</sup> brand, which has been in existence for 129 years, markets footwear in three categories: (i) work and industrial; (ii) outdoor sport; and (iii) rugged casual. The development of *DuraShocks*<sup>®</sup>, *MultiShox*<sup>®</sup>, *Wolverine Fusion*<sup>®</sup> and *Wolverine Compressor*<sup>®</sup> technologies, as well as the development of the *Contour Welt*<sup>®</sup> line, have allowed the *Wolverine*<sup>®</sup> brand to offer a broad

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line of work footwear with a focus on comfort. The *Wolverine*<sup>®</sup> work product line, whose target consumers are industrial workers, features work boots and shoes with protective features such as toe caps, metatarsal guards and electrical hazard protection. The *Wolverine*<sup>®</sup> rugged casual and outdoor sport product lines incorporate *DuraShocks*<sup>®</sup>, *Wolverine iCS*<sup>™</sup> and other technologies and comfort features into products designed for casual and outdoor sport use. The target consumers for the rugged casual line products have active lifestyles. The outdoor sport line is designed to meet the needs of hunters, fishermen and other active outdoor sports enthusiasts.

***Wolverine*<sup>®</sup> Apparel and Licensing:** The Heritage Group markets a line of work and rugged casual *Wolverine*<sup>®</sup> brand apparel. In addition, the Company licenses its *Wolverine*<sup>®</sup> brand for use on eyewear and gloves.

***Cat*<sup>®</sup> Footwear:** Pursuant to a license arrangement with Caterpillar, Inc., the Company has exclusive footwear marketing and distribution rights under *Caterpillar*<sup>®</sup>, *Cat*<sup>®</sup>, *Cat & Design*, *Walking Machines*<sup>®</sup> and other trademarks. The Company believes the association with *Cat*<sup>®</sup> equipment encourages customers to view the footwear as high-quality, rugged and durable. *Cat*<sup>®</sup> brand footwear products include work boots and shoes, sport boots, rugged casual and lifestyle footwear, including lines of work and casual footwear featuring *iTechnology* and *Hidden Track*<sup>®</sup> comfort features. *Cat*<sup>®</sup> footwear targets work and industrial users and active lifestyle users. *Cat*<sup>®</sup> footwear is marketed in approximately 145 countries and territories worldwide. *Cat*<sup>®</sup>, *Caterpillar*<sup>®</sup>, *Cat & Design* and *Walking Machines*<sup>®</sup> are registered trademarks of Caterpillar Inc.

***Bates*<sup>®</sup> Uniform Footwear:** The *Bates*<sup>®</sup> brand is a leader in supplying footwear to military and civilian uniform users. *Bates*<sup>®</sup> utilizes *DuraShocks*<sup>®</sup>, *DuraShocks SR*, *CoolTech*, *Wolverine iCS* and other proprietary comfort technologies in the design of its military-style boots and oxford shoes. *Bates*<sup>®</sup> contracts with the United States Department of Defense and the military branches of several foreign countries to supply military footwear. Civilian uniform users include individuals in police, security, postal, restaurant and other industrial occupations. *Bates*<sup>®</sup> products are also distributed through specialty retailers and catalogs.

***Harley-Davidson*<sup>®</sup> Footwear:** Pursuant to a license arrangement with the Harley-Davidson Motor Company, the Company has footwear marketing and distribution rights for *Harley-Davidson*<sup>®</sup> branded footwear. *Harley-Davidson*<sup>®</sup> branded footwear products include motorcycle, casual, fashion, work and western footwear for men, women and children. *Harley-Davidson*<sup>®</sup> footwear is sold globally through a network of independent *Harley-Davidson*<sup>®</sup> dealerships and other retail outlets. *Harley-Davidson*<sup>®</sup> is a registered trademark of H-D Michigan, Inc.

***HyTest*<sup>®</sup> Safety Footwear:** The *HyTest*<sup>®</sup> product line consists primarily of high-quality work boots and shoes that incorporate various specialty safety features designed to protect against hazards of the workplace, including steel toe, composite toe, metatarsal guards, and electrical hazard, static dissipating and conductive footwear. *HyTest*<sup>®</sup> footwear is distributed primarily through a network of independently-owned *Shoemobile*<sup>®</sup> mobile truck retail outlets providing direct sales of the Company's occupational and work footwear brands to workers at industrial facilities and also through direct sales arrangements with large industrial customers.

3. **The Lifestyle Group** The Lifestyle Group consists of *Hush Puppies*<sup>®</sup> footwear and apparel, *Sebago*<sup>®</sup> footwear and apparel, and *Cushe*<sup>®</sup> and *Soft Style*<sup>®</sup> footwear.

***Hush Puppies*<sup>®</sup>:** Since 1958, the *Hush Puppies*<sup>®</sup> brand has been a leader in casual footwear. The brand offers shoes, sandals and boots for men, women and children, and is marketed in



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approximately 140 countries and territories. The modern styling is complemented by a variety of comfort features and proprietary technologies that have earned the brand its reputation for comfort, style and value. In addition, the *Hush Puppies*<sup>®</sup> brand is licensed for use on certain items, including apparel, eyewear, handbags, socks, watches and plush toys.

**Sebago**<sup>®</sup>: The *Sebago*<sup>®</sup> product line has been marketed since 1946 and consists primarily of performance nautical and American-inspired casual footwear for men and women, such as boat shoes and hand sewn loafers. Highly recognized *Sebago*<sup>®</sup> line extensions include *Sebago Docksides*, *Drysides* and *Athletic Marine*. The *Sebago*<sup>®</sup> product line is marketed in approximately 125 countries and territories worldwide. The *Sebago*<sup>®</sup> manufacturing and design tradition of quality components, durability, comfort and Americana heritage is further supported by targeted distribution to better-grade independent, marine and department store retailers throughout the world. The Company also markets a classic and marine *Sebago*<sup>®</sup> apparel line.

**Cushe**<sup>®</sup>: The *Cushe*<sup>®</sup> business focuses on relaxed, design-led footwear for active men and women. The *Cushe*<sup>®</sup> Footwear business targets younger adult consumers and better-grade retailers with products ranging from sport casual footwear to sandals. *Cushe*<sup>®</sup> is marketed under three primary collections: Universal Traveler, Urban Safari and Coastal Supremacy.

**Soft Style**<sup>®</sup>: The *Soft Style*<sup>®</sup> product line consists primarily of women's dress and casual footwear.

## **Other Businesses**

In addition to its branded footwear, apparel and licensing operations, the Company also (i) operates 89 retail stores in North America and 12 retail stores in the United Kingdom that feature footwear and apparel; and (ii) operates a performance leathers business through its Wolverine Leathers Division.

1. **Wolverine Retail** The Company's consumer-direct business operates 89 North American and 12 United Kingdom-based retail stores at December 31, 2011. These stores are operated under the *Hush Puppies*<sup>®</sup>, *Hush Puppies and Family*<sup>SM</sup>, *Track N Trail*<sup>®</sup>, *Sebago*<sup>®</sup>, *Wolverine Company Store*, *Rockford Footwear Depot*<sup>®</sup> and *Merrell*<sup>®</sup> names. The *Rockford Footwear Depot*<sup>®</sup>, *Track N Trail*<sup>®</sup>, *Hush Puppies*<sup>®</sup> and *Hush Puppies and Family*<sup>SM</sup> retail formats carry a large selection of Company-branded products, featuring such brands as *Wolverine*<sup>®</sup>, *Merrell*<sup>®</sup>, *Hush Puppies*<sup>®</sup>, *Cat*<sup>®</sup>, *Chaco*<sup>®</sup>, *Cushe*<sup>®</sup>, *Patagonia*<sup>®</sup>, *Sebago*<sup>®</sup> and *Harley-Davidson*<sup>®</sup>. The Company also operates *Merrell*<sup>®</sup> concept stores, *Hush Puppies*<sup>®</sup> concept stores and *Sebago*<sup>®</sup> concept stores, providing a platform to showcase these brands exclusively. In addition, the Company operates 42 consumer-direct retail websites, including [www.merrell.com](http://www.merrell.com), [www.wolverine.com](http://www.wolverine.com), [www.cushe.com](http://www.cushe.com), [www.hushpuppies.com](http://www.hushpuppies.com), [www.chacos.com](http://www.chacos.com), [www.catfootwear.com](http://www.catfootwear.com), [www.sebago.com](http://www.sebago.com) and [www.batesfootwear.com](http://www.batesfootwear.com).
2. **The Wolverine Leathers Division** The Wolverine Leathers Division markets pigskin leather for use primarily in the footwear industry. The Company believes pigskin leather offers superior performance and other advantages over cowhide leather. The Company's waterproof and stain resistant leathers are featured in some of the Company's footwear lines and many products offered by the Company's international licensees and distributors.

## **Marketing**

The Company's marketing strategy is to develop brand-specific plans and related promotional materials for U.S. and international markets to foster a consistent message for each of the Company's core brands. Each brand

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operating group has dedicated marketing personnel who develop the marketing strategy for brands within that group. Marketing campaigns and strategies vary by brand and are designed to target accounts and/or end users as the brand operating groups strive to increase awareness of, and affinity for, the Company's brands. The Company's advertisements typically emphasize fashion, comfort, quality, durability, functionality and other performance and lifestyle aspects of the Company's products. Components of the brand-specific plans vary and may include print, radio and television advertising, search engine optimization, social networking sites, event sponsorships, in-store point-of-purchase displays, promotional materials, and sales and technical assistance.

The Company's brand operating groups provide its licensees and distributors with creative direction, brand images and other materials to convey consistent brand messaging, including (i) direction on the categories of footwear to be promoted, (ii) photography and layouts, (iii) broadcast advertising, including commercials and film footage, (iv) point-of-purchase presentation specifications, blueprints and packaging, (v) sales materials and (vi) consulting services regarding retail store layout and design. The Company believes its brand names represent a competitive advantage, and the Company makes significant expenditures on marketing and promotion to support the position of its products and enhance brand awareness.

## **Domestic Sales and Distribution**

The Company uses a wide variety of domestic distribution channels and strategies to distribute its branded products:

The Company uses a dedicated sales force and customer service team, advertising and point-of-purchase support and maintains in-stock inventories to service department stores, national chains, specialty retailers, catalogs, independent retailers, uniform outlets and its own consumer direct business.

Volume direct programs ship products directly to the retail customer without going through a Company distribution center and provide products at competitive prices with limited marketing support. The Company uses these programs to service major retail, catalog, mass merchant and government customers.

A network of independent *Shoemobile*<sup>®</sup> distribution outlets distributes the Company's work and occupational footwear at industrial facilities.

The Company solicits all branches of the United States military and submits bids for contracts to supply specific footwear products. Such contracts typically contain future purchase options that may or may not be exercised.

In addition to its wholesale activities, the Company also operates a consumer-direct business as described above. The Company continues to develop new programs, both independently and in conjunction with its retail customers, for the distribution of its products.

A broad distribution base insulates the Company from dependence on any one customer. No customer of the Company accounted for more than 10% of the Company's revenue in fiscal year 2011.

The Company experiences moderate fluctuations in sales volume during the year as reflected in quarterly revenue (and taking into consideration the 16 weeks or 17 weeks included in the Company's fiscal fourth quarter versus the 12 weeks included in each of the first three fiscal quarters). The Company expects current seasonal sales patterns to continue in future years. The Company also experiences some fluctuation in its levels of working capital, typically including an increase in working capital requirements near the end of the first and third quarters. The Company meets its working capital requirements through internal free cash flow and, as needed, a revolving credit agreement.

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### **International Operations and Global Licensing**

The Company's foreign-sourced revenue is generated from a combination of (i) sales of branded footwear and apparel through the Company's owned operations in Canada, the United Kingdom and several branch offices in Europe; (ii) sales to third-party distributors for certain markets and businesses; and (iii) royalty income from a network of third-party licensees and distributors. The Company's owned operations are located in markets where the Company believes it can gain a strategic advantage by directly controlling the sale of its products into retail accounts. License and distribution arrangements enable the Company to develop sales in other markets without the capital commitment required to maintain related foreign operations, employees, inventories or localized marketing programs.

The Company continues to develop its network of licensees and distributors to market its branded products. The Company assists its licensees in designing products that are appropriate to each foreign market, but consistent with the global brand position. Pursuant to distribution or license agreements, third-party licensees and distributors either purchase goods directly from the Company and authorized third-party manufacturers or manufacture branded products themselves, consistent with Company standards. Distributors and licensees are responsible for independently marketing and distributing Company branded products in their respective territories, with product and marketing support from the Company.

### **Manufacturing and Sourcing**

The Company directly controls the majority of the units of footwear and apparel manufactured or sourced under the Company's brand names. The balance is controlled directly by the Company's licensees. A substantial majority of the units sourced and/or manufactured by the Company are purchased or sourced from third parties, with the remainder produced at Company-owned facilities. The Company sources a majority of its footwear from numerous third-party manufacturers in the Asia Pacific region, South America and India. The Company maintains offices in the Asia Pacific region to facilitate and develop strategies for the sourcing and importation of quality footwear and apparel. The Company has established guidelines for each of its third-party manufacturers in order to monitor product quality, labor practices and financial viability. The Company has adopted Engagement Criteria for Partners & Sources, a policy that requires that the Company's domestic and foreign manufacturers, licensees and distributors use ethical business standards; comply with all applicable health and safety laws and regulations; commit to use environmentally safe practices; treat employees fairly with respect to wages, benefits and working conditions; and not use child or prison labor. Footwear produced by the Company is manufactured at Company-operated facilities located in Michigan and the Dominican Republic.

The Company's owned manufacturing operations allow the Company to (i) reduce its production lead time, to more quickly respond to market demand and reduce inventory risk, (ii) lower freight, shipping and duty costs for sales to certain markets, and (iii) more closely monitor product quality. The Company's third-party sourcing strategy allows the Company to (i) benefit from lower manufacturing costs and state-of-the-art manufacturing facilities, (ii) source high quality raw materials from around the world, and (iii) avoid capital expenditures necessary for additional owned factories. The Company believes that its overall global manufacturing strategy provides the flexibility to properly balance the need for timely shipments, high quality products and competitive pricing.

The Company's principal required raw material is quality leather, which it purchases from a select group of domestic and foreign suppliers. The global availability of common upper materials and specialty leathers eliminates any reliance by the Company on a sole supplier.

The Company currently purchases all of the raw pigskins used for its Wolverine Leathers Division from one domestic source, which has been a reliable and consistent supplier to the Company for over 40 years. Alternative sources of raw pigskin are available, but with less advantageous pricing, quality and compatibility with the Company's processing method. The Company purchases all of its other raw materials and component parts from a variety of sources and does not believe that any of these sources are a dominant supplier.

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The Company is subject to the normal risks of doing business abroad due to its international operations, including the risk of expropriation, acts of war or terrorism, political disturbances and similar events, the imposition of trade barriers, quotas, tariffs and duties, loss of most favored nation trading status and currency and exchange rate fluctuations. With respect to international sourcing activities, management believes that over a period of time, it could arrange adequate alternative sources of supply for the products currently obtained from its foreign suppliers, but that a sustained disruption of such sources of supply could have an adverse impact on the Company's results of operations and financial position.

### **Trademarks, Licenses and Patents**

The Company holds a significant portfolio of registered and common law trademarks that identify its branded products. The Company's owned trademarks include *Hush Puppies*<sup>®</sup>, *Wolverine*<sup>®</sup>, *Bates*<sup>®</sup>, *Cushe*<sup>®</sup>, *Chaco*<sup>®</sup>, *Soft Style*<sup>®</sup>, *Wolverine Fusion*<sup>®</sup>, *DuraShocks*<sup>®</sup>, *MultiShox*<sup>®</sup>, *Wolverine Compressor*<sup>®</sup>, *Hidden Tracks*<sup>®</sup>, *iTechnology*<sup>™</sup>, *Bounce*<sup>®</sup>, *Comfort Curve*<sup>®</sup>, *HyTest*<sup>®</sup>, *Merrell*<sup>®</sup>, M Circle Design (registered design trademark), *Continuum*<sup>®</sup>, *Sebago*<sup>®</sup>, *Q Form*<sup>®</sup> and *Track N Trail*. The Company's Wolverine Leathers Division markets its pigskin leathers under the trademarks *Wolverine Warrior Leather*<sup>®</sup>, *Weather Tight*<sup>®</sup> and *All Season Weather Leathers*. The Company has footwear marketing and distribution rights under the *Cat*<sup>®</sup>, *Harley-Davidson*<sup>®</sup> and *Patagonia*<sup>®</sup> trademarks pursuant to license arrangements with the respective trademark owners. The *Cat*<sup>®</sup>, *Harley-Davidson*<sup>®</sup>, and *Patagonia*<sup>®</sup> licenses extend for three or more years and are subject to early termination for breach.

The Company believes that consumers identify its products by the Company's trademarks and that its trademarks are valuable assets. The Company is not aware of any infringing uses or any prior claims of ownership of its trademarks that could materially affect its current business. The Company has a policy of registering its primary trademarks and vigorously defending its trademarks against infringement or other threats whenever practicable. The Company also holds many design and utility patents, copyrights and various other proprietary rights. The Company vigorously protects its proprietary rights under applicable laws.

### **Order Backlog**

At December 31, 2011 the Company had an order backlog of approximately \$483 million compared to an order backlog of approximately \$470 million at January 1, 2011, determined on a consistent basis. A majority of the backlog relates to orders for products expected to be shipped in 2012. Orders in the backlog are subject to cancellation by customers and to changes in planned customer demand or at-once orders. The backlog at any particular time is affected by a number of factors, including seasonality, retail conditions, expected customer demand, product availability and the schedule for the manufacture and shipment of products. Accordingly, a comparison of backlog from period to period is not necessarily meaningful and may not be predictive of eventual actual shipments.

### **Competition**

The Company markets its footwear and apparel lines in a highly competitive and fragmented environment. The Company competes with numerous domestic and international marketers and importers, some of which are larger and have greater resources than the Company. The Company has at least forty major competitors for its brands of footwear and apparel. Product performance and quality, including technological improvements, product identity, competitive pricing and ability to control costs, and the ability to adapt to style changes are all important elements of competition in the footwear and apparel markets served by the Company. The footwear and apparel industries in general are subject to changes in consumer preferences. The Company strives to maintain its competitive position through promotions designed to increase brand awareness, manufacturing and sourcing efficiencies, and the style, comfort and value of its products. Future sales by the Company will be affected by its continued ability to sell its products at competitive prices and to meet shifts in consumer preferences.

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Because of the lack of reliable published statistics, the Company is unable to state with certainty its competitive position in the overall footwear and apparel industries. Market shares in the non-athletic footwear and apparel industry are highly fragmented, and no one company has a dominant market position.

### **Research and Development**

In addition to normal and recurring product development, design and styling activities, the Company engages in research and development activities related to the development of new production techniques and to the improvement of the function, performance, reliability and quality of its branded footwear and other products. For example, the Company's continuing relationship with the Biomechanics Evaluation Laboratory at Michigan State University has helped validate and refine specific biomechanical design concepts, such as *Bounce*<sup>®</sup>, *DuraShocks*<sup>®</sup> and *Hidden Tracks*<sup>®</sup> comfort technologies, which have been incorporated into the Company's footwear. While the Company expects to continue to be a leading developer of footwear innovations, research and development costs do not represent a material portion of operating expenses.

### **Environmental Matters**

Compliance with domestic and foreign federal, state and local requirements regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment have not had, nor are they expected to have, any material effect on the capital expenditures, earnings or competitive position of the Company. The Company uses and generates certain substances and wastes that are regulated or may be deemed hazardous to the environment under certain federal, state and local regulations. The Company works with domestic and foreign federal, state and local agencies from time to time to resolve cleanup issues at various waste sites and other regulatory issues.

### **Employees**

As of December 31, 2011, the Company had approximately 4,435 domestic and foreign production, office and sales employees. Approximately 54 employees were covered by a single union contract that expires on March 31, 2013. The Company presently considers its employee relations to be good.

### **Available Information**

Information about the Company, including the Company's Code of Conduct & Compliance, Corporate Governance Guidelines, Director Independence Standards, Accounting and Finance Code of Ethics, Audit Committee Charter, Compensation Committee Charter, and Governance Committee Charter, is available at its website at [www.wolverineworldwide.com/investor-relations/corporate-governance](http://www.wolverineworldwide.com/investor-relations/corporate-governance). Printed copies of the documents listed above are available, without charge, by writing to the Company at 9341 Courtland Drive, N.E., Rockford, Michigan 49351, Attention: General Counsel.

The Company also makes available on or through its website, free of charge, the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports (along with certain other Company filings with the Securities and Exchange Commission (SEC)), as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. These materials are also accessible on the SEC's website at [www.sec.gov](http://www.sec.gov).

### **Item 1A. Risk Factors**

**Changes in general economic conditions and other factors affecting consumer spending could adversely affect the Company's sales, operating results or financial position.**

The Company's global operations depend on factors affecting consumer disposable income and spending patterns. These factors include general economic conditions, employment rates, business conditions, interest rates

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and tax policy. Customers may defer or cancel purchases of the Company's products due to uncertainty about global economic conditions. Consumer confidence may decline due to recessionary economic cycles, high interest rates on consumer or business borrowings, restricted credit availability, inflation, high levels of unemployment or consumer debt, high tax rates or other economic factors. Declining consumer confidence could adversely affect demand for the Company's products. Changes in the amount or severity of bad weather and the growth or decline of global footwear, apparel or consumer-direct markets could affect negatively consumer spending. A decline in demand for the Company's products could reduce the Company's revenues or profit margins.

General economic conditions and regulatory factors such as those listed above, as well as increased costs of fuel, labor, commodities, insurance and health care, may increase the Company's cost of sales and operating expenses. Such increases could adversely affect the Company's financial position and results of operations.

### **The Company operates in competitive industries and markets.**

The Company competes with a large number of marketers of footwear or apparel, and consumer-direct companies. Some of these competitors are larger and have greater resources than the Company. Important elements of such competition are product performance and quality, including technological improvements, product identity, competitive pricing and the ability to adapt to style changes. Consumer preferences and, as a result, the popularity of particular designs and categories of footwear and apparel generally change over time. The Company strives to maintain and improve its competitive position by monitoring and responding to changes in consumer preferences, increasing brand awareness, gaining sourcing efficiencies, and enhancing the style, comfort and perceived value of its products. The Company's continued ability to sell its products at competitive prices and to meet shifts in consumer preferences will affect its future sales. If the Company is unable to respond effectively to competitive pressures and changes in consumer spending, its results of operations and financial position may be adversely affected.

Many of the Company's competitors have more developed consumer and customer bases, lower prices, or greater financial, technical or marketing resources than the Company, particularly in the apparel and consumer-direct businesses. The Company's competitors may implement more effective marketing campaigns; adopt more aggressive pricing policies; make more attractive offers to potential employees, distribution partners and manufacturers; or respond more quickly to changes in consumer preferences, than the Company. The Company's results of operations and financial position could be adversely affected if the Company's businesses are not successful.

### **The Company's operating results depend on effectively managing inventory levels.**

The Company's ability to manage its inventories effectively is an important factor in its operations. Inventory shortages can impede the Company's ability to meet orders, adversely affect the timing of shipments to customers, and, consequently, diminish brand loyalty. Conversely, excess inventories can result in lower gross margins if the Company lowers prices in order to liquidate excess inventories. The Company's business, results of operations and financial position could be adversely affected if the Company is unable to effectively manage its inventory.

### **Increases or changes in duties, quotas, tariffs and other trade restrictions could adversely impact the Company's sales and profitability.**

All of the Company's products manufactured overseas and imported into the U.S., the European Union and other countries are subject to customs duties collected by customs authorities. Customs information submitted by the Company is routinely subject to review by customs authorities. Additional U.S. or foreign customs duties, quotas, tariffs, anti-dumping duties, safeguard measures, cargo restrictions to prevent terrorism or other trade restrictions may be imposed on the importation of the Company's products in the future. The imposition of such

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costs or restrictions in foreign countries where the Company operates, as well as in countries where the Company's third-party distributors and licensees operate, could result in increases in the cost of the Company's products generally and could adversely affect the sales and profitability of the Company.

**Foreign currency exchange rate fluctuations could adversely impact the Company's business.**

Foreign currency fluctuations affect the Company's reported revenue and profitability. In addition, because the Company may employ hedging strategies over time, changes in currency exchange rates may impact the Company's financial results positively or negatively in one period and not another, which may make it difficult to compare the Company's operating results from different periods. Currency exchange rate fluctuations may also adversely impact third parties who manufacture the Company's products by making their costs of raw materials or other production costs more expensive and more difficult to finance, thereby raising prices for the Company, its distributors and licensees. For a more detailed discussion of risk relating to foreign currency fluctuation, see Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*.

**Significant raw material shortages, supplier cap**