

WOLVERINE WORLD WIDE INC /DE/

Form 10-Q

October 19, 2016

UNITED STATES

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 twelve week accounting period ended September 10, 2016

OR

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

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

Commission File Number: 001-06024

---

WOLVERINE WORLD WIDE, INC.

(Exact Name of Registrant as Specified in its Charter)

---

Delaware	38-1185150
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	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 ☒ 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 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 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 Exchange Act).

Yes ☐ No ☒

There were 98,660,413 shares of common stock, \$1 par value, outstanding as of October 8, 2016.



Table of Contents

Table of Contents

PART I <u>Financial Information</u>	<u>4</u>
Item 1. <u>Financial Statements</u>	<u>4</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
Item 4. <u>Controls and Procedures</u>	<u>40</u>
PART II <u>Other Information</u>	<u>40</u>
Item 1A. <u>Risk Factors</u>	<u>40</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
Item 6. <u>Exhibits</u>	<u>41</u>
<u>Signatures</u>	<u>42</u>

## Table of Contents

### 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, national, regional or 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 similar expressions. 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 general economic conditions, employment rates, business conditions, interest rates, tax policies and other factors affecting consumer spending in the markets and regions in which the Company’s products are sold;
- the inability for any reason to effectively compete in global footwear, apparel and consumer-direct markets;
- the inability to maintain positive brand images and anticipate, understand and respond to changing footwear and apparel trends and consumer preferences;
- the inability to effectively manage inventory levels;
- increases or changes in duties, tariffs, quotas or applicable assessments in countries of import and export;
- currency fluctuations and restrictions;
- capacity constraints, production disruptions, quality issues, price increases or other risks associated with foreign sourcing;
- the cost and availability of raw materials, inventories, services and labor for owned and contract manufacturers;
- labor disruptions;
- changes in relationships with, including the loss of, significant wholesale customers;
- the failure of the U.S. 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;
- risks related to the significant investment in, and performance of, the Company’s consumer-direct operations;
- risks related to the expanding into new markets and complementary product categories as well as consumer-direct operations;
- the impact of seasonality and unpredictable weather conditions;
- changes in general economic conditions and/or the credit markets on the Company’s distributors, suppliers and customers;
- increase in the Company’s effective tax rates;
- failure of licensees or distributors to meet planned annual sales goals or to make timely payments to the Company;
- 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;
- the impact of regulation, regulatory and legal proceedings and legal compliance risks;
- the inability to attract and retain executive managers and other key employees;
- the potential breach of the Company’s databases, or those of its vendors, which contain certain personal information or payment card data;
- problems affecting the Company’s distribution system, including service interruptions at shipping and receiving ports;
- strategic actions, including new initiatives and ventures, acquisitions and dispositions, and the Company’s success in integrating acquired businesses, and implementing new initiatives and ventures;
- the risk of impairment to goodwill and other acquired intangibles;
- the success of the Company’s consumer-direct realignment initiatives; and
- changes in future pension funding requirements and pension expenses.

These uncertainties could cause a material difference between an actual outcome and a forward-looking statement. The uncertainties included here are not exhaustive and are described in more detail in Part I, Item 1A: “Risk Factors” of the Company’s Annual Report on Form 10-K for the fiscal year ended January 2, 2016 (the “2015 Form 10-K”). Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. 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.

3

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Operations and Comprehensive Income

(Unaudited)

	12 Weeks Ended		36 Weeks Ended		
(In millions, except per share data)	September 2016	September 12, 2015	September 2016	September 12, 2015	
Revenue	\$603.7	\$ 678.9	\$1,765.0	\$ 1,940.4	
Cost of goods sold	366.1	407.2	1,068.1	1,160.9	
Restructuring costs	0.3	—	4.2	—	
Gross profit	237.3	271.7	692.7	779.5	
Selling, general and administrative expenses	167.4	191.0	534.5	584.9	
Restructuring and impairment costs	0.9	4.8	13.4	7.5	
Operating profit	69.0	75.9	144.8	187.1	
Other expenses:					
Interest expense, net	8.6	9.0	24.9	27.5	
Debt extinguishment and other costs	0.5	1.6	0.5	1.6	
Other expense, net	—	0.5	1.0	1.3	
Total other expenses	9.1	11.1	26.4	30.4	
Earnings before income taxes	59.9	64.8	118.4	156.7	
Income tax expense	11.7	18.8	28.5	45.4	
Net earnings	48.2	46.0	89.9	111.3	
Less: net earnings attributable to noncontrolling interest	—	0.2	0.3	0.1	
Net earnings attributable to Wolverine World Wide, Inc.	\$48.2	\$ 45.8	\$89.6	\$ 111.2	
Net earnings per share (see Note 3):					
Basic	\$0.49	\$ 0.45	\$0.92	\$ 1.10	
Diluted	\$0.49	\$ 0.44	\$0.91	\$ 1.08	
Comprehensive income	\$46.5	\$ 32.8	\$86.6	\$ 91.4	
Less: comprehensive income (loss) attributable to noncontrolling interest	0.4	(0.8	) 0.3	(1.2	)
Comprehensive income attributable to Wolverine World Wide, Inc.	\$46.1	\$ 33.6	\$86.3	\$ 92.6	
Cash dividends declared per share	\$0.06	\$ 0.06	\$0.18	\$ 0.18	
See accompanying notes to consolidated condensed financial statements.					

See accompanying notes to consolidated condensed financial statements.

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

(Unaudited)

(In millions, except share data)	September 10, 2016	January 2, 2016	September 12, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 530.9	\$ 194.1	\$ 196.4
Accounts receivable, less allowances:			
September 10, 2016 – \$42.6			
January 2, 2016 – \$44.4			
September 12, 2015 – \$42.0	309.5	298.9	374.6
Inventories:			
Finished products, net	445.6	448.0	481.2
Raw materials and work-in-process, net	12.0	18.6	14.3
Total inventories	457.6	466.6	495.5
Deferred income taxes	—	—	28.0
Prepaid expenses and other current assets	42.6	54.2	39.7
Total current assets	1,340.6	1,013.8	1,134.2
Property, plant and equipment:			
Gross cost	454.3	431.5	439.0
Accumulated depreciation	(305.5	) (299.9	) (294.7
Property, plant and equipment, net	148.8	131.6	144.3
Other assets:			
Goodwill	429.6	429.1	432.1
Indefinite-lived intangibles	685.6	685.4	687.9
Amortizable intangibles, net	87.1	97.3	101.8
Deferred income taxes	3.3	3.7	2.8
Other	64.0	73.5	74.1
Total other assets	1,269.6	1,289.0	1,298.7
Total assets	\$ 2,759.0	\$ 2,434.4	\$ 2,577.2

See accompanying notes to consolidated condensed financial statements.

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets – continued

(Unaudited)

(In millions, except share data)	September 10, 2016	January 2, 2016	September 12, 2015	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 168.0	\$ 199.7	\$ 183.1	
Accrued salaries and wages	26.6	28.5	30.7	
Other accrued liabilities	135.5	108.2	138.3	
Current maturities of long-term debt	393.5	16.9	11.2	
Borrowings under revolving credit agreements	1.2	—	—	
Total current liabilities	724.8	353.3	363.3	
Long-term debt, less current maturities	657.7	792.9	803.4	
Accrued pension liabilities	111.4	109.6	131.3	
Deferred income taxes	176.1	178.6	219.6	
Other liabilities	48.3	30.3	33.0	
Stockholders' equity:				
Wolverine World Wide, Inc. stockholders' equity:				
Common stock – par value \$1, authorized 320,000,000 shares; shares issued (including shares in treasury):				
September 10, 2016 – 105,599,231 shares				
January 2, 2016 – 103,915,928 shares				
September 12, 2015 – 103,973,830 shares	105.6	103.9	104.0	
Additional paid-in capital	93.6	75.9	73.2	
Retained earnings	1,022.8	950.8	945.2	
Accumulated other comprehensive loss	(59.4	) (56.1	) (68.1	)
Cost of shares in treasury:				
September 10, 2016 – 6,441,591 shares				
January 2, 2016 – 5,457,726 shares				
September 12, 2015 – 1,106,270 shares	(130.4	) (110.8	) (31.0	)
Total Wolverine World Wide, Inc. stockholders' equity	1,032.2	963.7	1,023.3	
Noncontrolling interest	8.5	6.0	3.3	
Total stockholders' equity	1,040.7	969.7	1,026.6	
Total liabilities and stockholders' equity	\$ 2,759.0	\$ 2,434.4	\$ 2,577.2	
See accompanying notes to consolidated condensed financial statements.				



Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Cash Flow

(Unaudited)

(In millions)	36 Weeks Ended	
	September 2016	September 12, 2015
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$89.9	\$ 111.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	30.0	32.8
Deferred income taxes	(0.6 )	(0.2 )
Stock-based compensation expense	15.3	17.4
Excess tax benefits from stock-based compensation	(0.4 )	(4.5 )
Pension contribution	(0.4 )	—
Pension and SERP expense	7.3	19.3
Debt extinguishment costs	—	1.6
Restructuring and impairment costs	17.6	7.5
Cash payments related to restructuring costs	(11.2 )	(6.7 )
Other	(4.8 )	(3.2 )
Changes in operating assets and liabilities:		
Accounts receivable	(12.7 )	(68.3 )
Inventories	8.3	(91.7 )
Other operating assets	10.1	29.0
Accounts payable	(34.7 )	32.7
Other operating liabilities	29.5	32.8
Net cash provided by operating activities	143.2	109.8
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(34.4 )	(28.6 )
Investment in joint venture	(0.5 )	—
Other	10.4	(4.3 )
Net cash used in investing activities	(24.5 )	(32.9 )
<b>FINANCING ACTIVITIES</b>		
Net borrowings under revolving credit agreements	1.2	—
Borrowings of long-term debt	250.0	450.0
Payments on long-term debt	(5.7 )	(525.2 )
Payments of debt issuance costs	(3.4 )	(2.4 )
Cash dividends paid	(17.7 )	(18.3 )
Purchase of common stock for treasury	(11.4 )	(12.6 )
Purchases of shares under employee stock plans	(4.7 )	(7.6 )
Proceeds from the exercise of stock options	5.6	12.8
Excess tax benefits from stock-based compensation	0.4	4.5
Contributions from noncontrolling interests	2.2	—
Net cash provided by (used in) financing activities	216.5	(98.8 )
Effect of foreign exchange rate changes	1.6	(5.5 )
Increase (decrease) in cash and cash equivalents	336.8	(27.4 )
Cash and cash equivalents at beginning of the year	194.1	223.8
Cash and cash equivalents at end of the period	\$530.9	\$ 196.4
See accompanying notes to consolidated condensed financial statements.		



Table of Contents

WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

September 10, 2016 and September 12, 2015

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Wolverine World Wide, Inc. (the “Company”) is a leading global designer, manufacturer and marketer of footwear, apparel and accessories. The Company’s portfolio of owned and licensed brands includes: Bates®, Cat®, Chaco®, Harley-Davidson®, Hush Puppies®, HyTest®, Keds®, Merrell®, Saucony®, Sebago®, Sperry®, Stride Rite® and Wolverine®. Third-party distributors, licensees and joint ventures extend the global reach of the Company’s brand portfolio. The Company also operates a consumer-direct division that markets both its own brands and branded footwear and apparel from other manufacturers, as well as a leathers division that markets Wolverine Performance Leathers™.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) 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 U.S. GAAP 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 fiscal 2015 Form 10-K.

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 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. Retail store revenue is recognized at time of sale.

The Company records provisions for estimated sales returns and allowances at the time of sale based on historical rates of returns and allowances and specific identification of outstanding returns not yet received from customers. However, estimates of actual returns and allowances in any future period are inherently uncertain and actual returns and allowances may differ from these estimates. If actual or expected future returns and allowances were significantly greater or less than established reserves, a reduction or increase to net revenues would be recorded in the period this determination was made.

Cost of Goods Sold

Cost of goods sold includes the actual product costs, including inbound freight charges and certain outbound 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 12 weeks in each of the first three fiscal quarters and, depending on the fiscal calendar, 16 or 17 weeks in the fourth fiscal quarter. Both of these factors can cause significant differences in revenue, earnings and cash flows from quarter to quarter; however, the differences have followed a consistent pattern in recent years.

Table of Contents**2. NEW ACCOUNTING STANDARDS**

The Financial Accounting Standards Board (“FASB”) issued the following Accounting Standards Updates (“ASU”) that have been adopted by the Company during fiscal 2016. The following is a summary of the effect of adoption of these new standards.

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period	Requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award.	Did not have, nor does the Company believe it will have, a material impact on its existing stock-based compensation plans.
ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern	Requires that an entity’s management evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued.	Did not have a significant impact on its quarterly reporting process.
ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	Requires that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the debt. Allows an entity to present debt issuance costs associated with a revolving line of credit arrangement as an asset, regardless of whether a balance is outstanding. Does not affect the recognition and measurement guidance for debt issuance costs.	Resulted in the reclassification of \$10.2 million and \$11.0 million of deferred financing costs associated with the Company’s long-term debt from deferred financing costs to long-term debt as of January 2, 2016 and September 12, 2015, respectively. In accordance with ASU 2015-15, the Company elected to continue to present its debt issuance costs related to its revolving line of credit as an asset. Due to the adoption of this standard, these deferred financing costs are included in other noncurrent assets. The prior period disclosures have been restated to conform to the current year presentation. The new standards did not affect the Company’s results of operations or cash flows.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	Provides guidance for how certain cash receipts and cash payments should be presented and classified in the statement of cash flows, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees.	Did not have, nor does the Company believe it will have, a material impact on its existing cash flows presentation.

The FASB has issued the following ASUs that have not yet been adopted by the Company. The following is a summary of the planned adoption period and anticipated impact of adopting these new standards.

Standard	Description	Planned Period of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers (as amended by ASUs 2015-04, 2016-08, 2016-10 and 2016-12)	The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.	Q1 2018	The Company is evaluating the impacts of the new standards on its existing revenue recognition policies and procedures.

Table of Contents

Standard	Description	Planned Period of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2015-11, Simplifying the Measurement of Inventory	Requires that an entity measure inventory at the lower of cost and net realizable value. This ASU does not apply to inventory measured using last-in, first-out.	Q1 2017	The Company does not expect the new standard to have a significant impact on its consolidated financial position, results of operations or cash flows.
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	Enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of financial statements. The core principle is that a lessee shall recognize a lease asset and lease liability in its statement of financial position. A lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term.	Q1 2018	The Company is evaluating the impacts of the new standard on its consolidated financial statements.
ASU 2016-02, Leases		Q1 2019	The Company is evaluating the impacts of the new standard on its existing leases.
ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	Clarifies that the novation of a derivative contract (i.e., a change in the counterparty) in a hedge accounting relationship does not, in and of itself, require dedesignation of that hedge accounting relationship, provided that all other hedge accounting criteria continue to be met.	Q1 2017	The Company is evaluating the impacts of the new standard on its accounting for derivatives.
ASU 2016-09, Improvements to Employee Share-Based Payment Accounting	Seeks to provide simplification to issues of share-based payment awards in relation to income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows.	Q1 2017	The Company is evaluating the impacts of the new standard on its share-based payment accounting.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	Seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	Q1 2020	The Company is evaluating the impacts of the new standard on its existing financial instruments, including trade receivables.

**3. EARNINGS PER SHARE**

The Company calculates earnings per share in accordance with 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 non-forfeitable 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

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

(In millions, except per share data)	12 Weeks Ended		36 Weeks Ended	
	September 10, 2016	September 12, 2015	September 10, 2016	September 12, 2015
Numerator:				
Net earnings attributable to Wolverine World Wide, Inc.	\$48.2	\$ 45.8	\$89.6	\$ 111.2
Adjustment for earnings allocated to non-vested restricted common stock	(1.0 )	(0.8 )	(1.9 )	(2.0 )
Net earnings used in calculating basic earnings per share	47.2	45.0	87.7	109.2
Adjustment for earnings reallocated from non-vested restricted common stock	—	—	—	0.1
Net earnings used in calculating diluted earnings per share	\$47.2	\$ 45.0	\$87.7	\$ 109.3
Denominator:				
Weighted average shares outstanding	99.4	103.0	99.4	102.9
Adjustment for non-vested restricted common stock	(3.8 )	(3.3 )	(3.8 )	(3.4 )
Shares used in calculating basic earnings per share	95.6	99.7	95.6	99.5
Effect of dilutive stock options	1.3	1.6	0.7	1.7
Shares used in calculating diluted earnings per share	96.9	101.3	96.3	101.2
Net earnings per share:				
Basic	\$0.49	\$ 0.45	\$0.92	\$ 1.10
Diluted	\$0.49	\$ 0.44	\$0.91	\$ 1.08

For the 12 and 36 weeks ended September 10, 2016, options relating to 1,968,599 and 4,636,609 shares of common stock outstanding, respectively, have not been included in the denominator for the computation of diluted earnings per share because they were anti-dilutive.

For the 12 and 36 weeks ended September 12, 2015, options relating to 1,692,879 and 1,526,875 shares of common stock outstanding, respectively, have not been included in the denominator for the computation of diluted earnings per share because they were anti-dilutive.

#### 4. GOODWILL AND INDEFINITE-LIVED INTANGIBLES

The changes in the carrying amount of goodwill and indefinite-lived intangibles are as follows:

(In millions)	Goodwill	Indefinite-lived intangibles	Total
Balance at January 3, 2015	\$438.8	\$ 690.5	\$1,129.3
Impairment	—	(2.6 )	(2.6 )
Foreign currency translation effects	(6.7 )	—	(6.7 )
Balance at September 12, 2015	\$432.1	\$ 687.9	\$1,120.0
Balance at January 2, 2016	\$429.1	\$ 685.4	\$1,114.5
Purchase of intangibles	—	0.2	0.2
Foreign currency translation effects	0.5	—	0.5
Balance at September 10, 2016	\$429.6	\$ 685.6	\$1,115.2

During the fourth quarter of fiscal 2015, the results of our indefinite-lived intangible impairment test based on the Company's outlook for future operating results gave rise to a reduction in the excess of fair value over the carrying value for the Stride Rite® and Sperry® trade name indefinite-lived intangible assets. The operating results for fiscal 2016 have met the Company's financial plan; however, if future operating results were to not meet its revenue and profitability projections, the Company may record a non-cash indefinite-lived intangible asset impairment charge in future periods. The carrying value of the Company's Stride Rite® and Sperry® trade name indefinite-lived intangible assets was \$15.0 million and \$586.8 million, respectively, as of September 10, 2016.





Table of Contents**5. ACCOUNTS RECEIVABLE**

The Company has an agreement with a financial institution to sell selected trade accounts receivable on a recurring, nonrecourse basis that expires in the fourth quarter of fiscal 2017. Under the agreement, up to \$200.0 million of accounts receivable may be sold to the financial institution and remain outstanding at any point in time. After the sale, the Company does not retain any interests in the accounts receivable and removes them from its consolidated balance sheet, but continues to service and collect the outstanding accounts receivable on behalf of the financial institution.

The Company recognizes a servicing asset or servicing liability, initially measured at fair value, each time it undertakes an obligation to service the accounts receivable under the agreement. The fair value of this obligation resulted in a nominal servicing liability for all periods presented. For receivables sold under the agreement, 90% of the stated amount is paid for in cash to the Company at the time of sale, with the remainder paid to the Company at the completion of the collection process. The following is a summary of the stated amount of accounts receivable that was sold as well as fees charged by the financial institution.

	12 Weeks Ended		36 Weeks Ended	
(In millions)	September 10, 2016	September 12, 2015	September 10, 2016	September 12, 2015
Accounts receivable sold	\$ 138.2	\$ 158.9	\$ 437.1	\$ 473.0
Fees charged	0.3	0.3	1.1	1.0

The fees are recorded in other expense. Net proceeds of this program are classified in operating activities in the consolidated condensed statements of cash flows. This program reduced the Company's accounts receivable by \$78.5 million, \$77.6 million and \$81.0 million as of September 10, 2016, January 2, 2016 and September 12, 2015, respectively.

**6. DEBT**

Total debt consists of the following obligations:

(In millions)	September 10, 2016	January 2, 2016	September 12, 2015
Term Loan A, due July 13, 2020	\$ 438.7	\$ 444.4	\$ 450.0
Public Bonds, 6.125% interest, due October 15, 2020	375.0	375.0	375.0
Senior Notes, 5.000% interest, due September 1, 2026	250.0	—	—
Borrowings under revolving credit agreements	1.2	—	—
Capital lease obligation	0.6	0.6	0.6
Unamortized debt issuance costs	(13.1)	(10.2)	(11.0)
Total debt	\$ 1,052.4	\$ 809.8	\$ 814.6

On July 13, 2015, the Company amended its credit agreement (as amended, the "Credit Agreement"). The Credit Agreement provided a \$450.0 million term loan facility ("Term Loan A") and a \$500.0 million revolving credit facility (the "Revolving Credit Facility"), both with maturity dates of July 13, 2020. The Credit Agreement's debt capacity is limited to an aggregate debt amount (including outstanding term loan principal and revolver commitment amounts in addition to permitted incremental debt) not to exceed \$1,425.0 million, unless certain specified conditions set forth in the Credit Agreement are met.

The Revolving Credit Facility allows the Company to borrow up to an aggregate amount of \$500.0 million, which includes a \$200.0 million foreign currency subfacility under which borrowings may be made, subject to certain conditions, in Canadian dollars, British pounds, euros, Hong Kong dollars, Swedish kronor, Swiss francs and such additional currencies as are determined in accordance with the Credit Agreement. The Revolving Credit Facility also includes a \$50.0 million swingline subfacility and a \$50.0 million letter of credit subfacility. The Company had outstanding letters of credit under the Revolving Credit Facility of \$2.6 million, \$3.8 million and \$3.6 million as of September 10, 2016, January 2, 2016 and September 12, 2015, respectively. These outstanding letters of credit reduce the borrowing capacity under the Revolving Credit Facility.

The interest rates applicable to amounts outstanding under Term Loan A and to U.S. dollar denominated amounts outstanding under the Revolving Credit Facility will be, at the Company's option, either (1) the Alternate Base Rate plus an Applicable Margin as determined by the Company's Consolidated Leverage Ratio, within a range of 0.25% to

1.00%, or (2) the Eurocurrency Rate plus an Applicable Margin as determined by the Company's Consolidated Leverage Ratio, within a range of 1.25% to 2.00% (all capitalized terms used in this sentence are as defined in the Credit Agreement). The Company has two interest rate swap arrangements that reduce the Company's exposure to fluctuations in interest rates on its variable rate debt. At September 10, 2016, Term Loan A had a weighted-average interest rate of 2.16%.

## Table of Contents

The obligations of the Company pursuant to the Credit Agreement are guaranteed by substantially all of the Company's material domestic subsidiaries and secured by substantially all of the personal and real property of the Company and its material domestic subsidiaries, subject to certain exceptions.

The Credit Agreement also contains certain affirmative and negative covenants, including covenants that limit the ability of the Company and its Restricted Subsidiaries to, among other things: incur or guarantee indebtedness; incur liens; pay dividends or repurchase stock; enter into transactions with affiliates; consummate asset sales, acquisitions or mergers; prepay certain other indebtedness; or make investments, as well as covenants restricting the activities of certain foreign subsidiaries of the Company that hold intellectual property related assets. Further, the Credit Agreement requires compliance with the following financial covenants: a maximum Consolidated Leverage Ratio; a maximum Consolidated Secured Leverage Ratio; and a minimum Consolidated Interest Coverage Ratio (all capitalized terms used in this paragraph are as defined in the Credit Agreement). As of September 10, 2016, the Company was in compliance with all covenants and performance ratios under the Credit Agreement.

On August 30, 2016, the Company issued \$250.0 million of senior notes that are due on September 1, 2026 (the "Senior Notes"). The Senior Notes bear interest at 5.000% with the related interest payments due semi-annually. The Senior Notes are guaranteed by substantially all of the Company's domestic subsidiaries.

Subsequent to the end of the third quarter of fiscal 2016, on September 15, 2016, the Company executed an amendment to the Credit Agreement (the "Amended Agreement"), which increased the outstanding principal balance of Term Loan A by \$150.0 million, and increased the amount the Company can borrow under the Revolving Credit Facility by \$100.0 million. Under the Amended Agreement, the debt capacity is now limited to an aggregate debt amount not to exceed \$1,750.0 million, unless certain specified conditions are met. The Amended Agreement also provides greater operational flexibility to the Company and its subsidiaries, including with respect to the ability of the Company and its subsidiaries to make restricted payments including share repurchases, investments and asset dispositions. The interest rates applicable to amounts outstanding are unchanged under the Amended Agreement, as are the maturity date of July 13, 2020 and financial covenants.

The Company has \$375.0 million of senior notes outstanding that may be traded in the public market (the "Public Bonds") that are due on October 15, 2020. The Public Bonds bear interest at 6.125% with the related interest payments due semi-annually. The Public Bonds are guaranteed by substantially all of the Company's domestic subsidiaries.

Subsequent to the end of the third quarter of fiscal 2016, on September 15, 2016, the Company redeemed the Public Bonds using the proceeds of the Senior Note issuance and the additional borrowings on Term Loan A. As such, the Company has classified the \$375.0 million as current maturities of long-term debt as of September 10, 2016 since the outstanding principal balance was voluntarily paid in the fourth quarter of fiscal 2016.

Due to the early redemption of the Public Bonds, the Company estimates that it will incur debt extinguishment costs of approximately \$18.0 million in the fourth quarter of fiscal 2016. This amount includes a \$13.1 million early redemption premium and the write-off of the unamortized balance of the deferred financing fees related to the original debt issuance.

The Company has various foreign revolving line of credit facilities with aggregate available borrowings of \$7.0 million that are uncommitted and, therefore, each borrowing against the applicable facility is subject to approval by the lender. Borrowings against these facilities were \$1.2 million, \$0.0 million and \$0.0 million as of September 10, 2016, January 2, 2016 and September 12, 2015, respectively.

The Company has a capital lease obligation with payments scheduled to continue through February 2022.

The Company included in interest expense the amortization of deferred financing costs of \$0.8 million and \$2.2 million for the 12 and 36 weeks ended September 10, 2016, respectively. The Company included in interest expense the amortization of deferred financing costs of \$0.7 million and \$2.7 million for the 12 and 36 weeks ended September 12, 2015, respectively.

## 7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) ("AOCI") represents net earnings and any revenue, expenses, gains and losses that, under U.S. GAAP, are excluded from net earnings and recognized directly as a component of stockholders' equity.



Table of Contents

The change in AOCI during the 12 weeks ended September 10, 2016 and September 12, 2015 is as follows:

(In millions)	Foreign currency translation adjustments	Foreign exchange contracts	Interest rate swaps	Pension adjustments	Total
Balance of AOCI as of June 20, 2015	\$ (26.1 )	\$ 5.9	\$ (0.3 )	\$ (35.4 )	\$(55.9)
Other comprehensive income (loss) before reclassifications (1)	(11.8 )	3.8	(4.0 )	—	(12.0 )
Amounts reclassified from AOCI	—	(6.6 )	(2) 1.6	4.8	(4) (0.2 )
Income tax expense (benefit)	—	2.2	(0.6 )	(1.6 )	—
Net reclassifications	—	(4.4 )	1.0	3.2	(0.2 )
Net current-period other comprehensive income (loss) (1)	(11.8 )	(0.6 )	(3.0 )	3.2	(12.2 )
Balance of AOCI as of September 12, 2015	\$ (37.9 )	\$ 5.3	\$ (3.3 )	\$ (32.2 )	\$(68.1)
Balance of AOCI as of June 18, 2016	\$ (37.0 )	\$ (0.2 )	\$ (8.8 )	\$ (11.3 )	\$(57.3)
Other comprehensive income (loss) before reclassifications (1)	(5.9 )	3.0	0.9	—	(2.0 )
Amounts reclassified from AOCI	—	(1.5 )	(2) 0.2	(3) 1.1	(4) (0.2 )
Income tax expense (benefit)	—	0.5	(0.1 )	(0.3 )	0.1
Net reclassifications	—	(1.0 )	0.1	0.8	(0.1 )
Net current-period other comprehensive income (loss) (1)	(5.9 )	2.0	1.0	0.8	(2.1 )
Balance of AOCI as of September 10, 2016	\$ (42.9 )	\$ 1.8	\$ (7.8 )	\$ (10.5 )	\$(59.4)

(1) Other comprehensive income (loss) is reported net of taxes and noncontrolling interest.

(2) Amounts reclassified are included in cost of goods sold.

(3) Amounts reclassified are included in interest expense.

(4) Amounts reclassified are included in the computation of net pension expense.

The change in AOCI during the 36 weeks ended September 10, 2016 and September 12, 2015 is as follows:

(In millions)	Foreign currency translation adjustments	Foreign exchange contracts	Interest rate swap	Pension adjustments	Total
Balance of AOCI as of January 3, 2015	\$ (16.9 )	\$ 8.6	\$ 0.4	\$ (41.6 )	\$(49.5)
Other comprehensive income (loss) before reclassifications (1)	(21.0 )	6.3	(4.7 )	—	(19.4 )
Amounts reclassified from AOCI	—	(14.0 )	(2) 1.6	14.5	(3) 2.1
Income tax expense (benefit)	—	4.4	(0.6 )	(5.1 )	(1.3 )
Net reclassifications	—	(9.6 )	1.0	9.4	0.8
Net current-period other comprehensive income (loss) (1)	(21.0 )	(3.3 )	(3.7 )	9.4	(18.6 )
Balance of AOCI as of September 12, 2015	\$ (37.9 )	\$ 5.3	\$ (3.3 )	\$ (32.2 )	\$(68.1)

Table of Contents

(In millions)	Foreign currency translation adjustments	Foreign exchange contracts	Interest rate swap	Pension adjustments	Total
Balance of AOCI as of January 2, 2016	\$ (47.3 )	\$ 6.4	\$ (2.4 )	\$ (12.8 )	\$(56.1)
Other comprehensive income (loss) before reclassifications (1)	4.4	(0.3 )	(5.8 )	—	(1.7 )
Amounts reclassified from AOCI	—	(6.2 )	(2) 0.7	3.4	(3) (2.1 )
Income tax expense (benefit)	—	1.9	(0.3 )	(1.1 )	0.5
Net reclassifications	—	(4.3 )	0.4	2.3	(1.6 )
Net current-period other comprehensive income (loss) (1)	4.4	(4.6 )	(5.4 )	2.3	(3.3 )
Balance of AOCI as of September 10, 2016	\$ (42.9 )	\$ 1.8	\$ (7.8 )	\$ (10.5 )	\$(59.4)

(1) Other comprehensive income (loss) is reported net of taxes and noncontrolling interest.

(2) Amounts reclassified are included in cost of goods sold.

(3) Amounts reclassified are included in interest expense.

(4) Amounts reclassified are included in the computation of net pension expense.

## 8. 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. ASC 820 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. The Company’s financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts payable, foreign currency forward exchange contracts, interest rate swap arrangements, borrowings under revolving credit agreements and long-term debt. The carrying amount of the Company’s financial instruments is historical cost, which approximates fair value, except for the interest rate swaps and foreign currency forward exchange contracts, which are carried at fair value. The carrying value and the fair value of the Company’s long-term debt, excluding capital leases, are as follows:

(In millions)	September 10, 2016	January 2, 2016	September 12, 2015
Carrying value	\$ 1,050.6	\$ 809.2	\$ 814.0
Fair value	1,090.9	836.3	846.2

The fair value of the fixed rate debt was based on third-party quotes (Level 2). The fair value of the variable rate debt was calculated by discounting the future cash flows to its present value using a discount rate based on the risk-free rate of the same maturity (Level 3).

The Company follows ASC 815, which is intended to improve transparency in financial reporting and requires that all derivative instruments be recorded on the consolidated 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 primarily with U.S. dollar inventory purchases made by non-U.S. wholesale operations in the normal course of business. These foreign currency forward exchange hedge contracts extend out to a maximum of 335 days, 349 days and 356 days, as of September 10, 2016, January 2, 2016 and September 12, 2015, respectively. The Company also utilizes foreign currency forward exchange contracts that are not designated as hedging instruments to manage foreign currency translation exposure. Foreign currency derivatives not designated as hedging instruments are offset by foreign exchange gains or losses resulting from the underlying

exposures of foreign currency denominated assets and liabilities.

The Company has two interest rate swap arrangements which exchange floating rate for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amounts. These derivative instruments, which, unless otherwise



Table of Contents

terminated, will mature on October 6, 2017 and July 13, 2020, have been designated as cash flow hedges of the debt. The notional amounts of the interest rate swap arrangements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The Company does not hold or issue financial instruments for trading purposes.

The notional amounts of the Company's derivative instruments are as follows:

(Dollars in millions)	September 10, 2016	January 2, 2016	September 12, 2015
Foreign exchange contracts:			
Hedge contracts	\$ 161.4	\$ 192.6	\$ 194.0
Non-hedge contracts	10.8	23.2	—
Interest rate swaps <sup>(1)</sup>	537.9	609.7	638.9

<sup>(1)</sup> Includes a forward starting interest rate swap with a notional amount of \$288.8 million, which has an effective date of October 17, 2016.

The following table sets forth financial assets and liabilities measured at fair value in the consolidated balance sheets and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy.

(In millions)	Fair Value Measurements		
	Quoted Prices With Other		
	Observable Inputs (Level 2)		
	September 10, 2016	January 2, 2016	September 12, 2015
Financial assets:			
Foreign exchange contracts - hedge	\$2.5	\$ 6.7	\$ 3.7
Foreign exchange contracts - non-hedge	—	0.5	—
Interest rate swaps	—	0.2	—
Financial liabilities:			
Foreign exchange contracts - hedge	\$1.6	\$ —	\$ 1.3
Foreign exchange contracts - non-hedge	0.5	0.1	—
Interest rate swaps	12.1	3.9	5.0

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 line item in the consolidated condensed statements of operations. Hedge ineffectiveness was not material to the Company's consolidated condensed financial statements for the 12 or 36 weeks ended September 10, 2016 and September 12, 2015. 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 AOCI within stockholders' equity.

The differential paid or received on the interest rate swap arrangements is recognized as interest expense. In accordance with ASC 815, the Company has formally documented the relationship between the interest rate swaps and the variable rate borrowings, as well as its risk management objective and strategy for undertaking the hedge transaction. This process included linking the derivative to the specific liability or asset on the balance sheet. The Company also assessed at the hedges' inception, and continues to assess on an ongoing basis, whether the derivatives used in the hedging transaction are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of unrealized gains (losses) is deferred as a component of AOCI and will be recognized in earnings at the time the hedged item affects earnings. Any ineffective portion of the change in fair value will be immediately recognized in earnings.

## 9. 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 expense of \$3.8 million and \$15.3 million, and related income tax benefits of \$1.4 million and \$5.3 million, for grants

under its stock-based compensation plans for the 12 and 36 weeks ended September 10, 2016, respectively. The Company recognized compensation expense of \$3.3 million and \$17.4 million, and related income tax benefits of \$1.0 million and \$5.7 million, for grants under its stock-based compensation plans for the 12 and 36 weeks ended September 12, 2015.

Stock-based compensation expense recognized in the consolidated condensed statements of operations and comprehensive income is based on awards ultimately expected to vest and, as such, has been reduced for estimated forfeitures. ASC 718 requires forfeitures

Table of Contents

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 36 weeks ended September 10, 2016 and September 12, 2015 was \$3.34 and \$6.37, respectively, with the following weighted average assumptions:

	36 Weeks Ended			
	September 10, 2016		September 12, 2015	
Expected market price volatility <sup>(1)</sup>	27.2	%	28.8	%
Risk-free interest rate <sup>(2)</sup>	1.0	%	1.3	%
Dividend yield <sup>(3)</sup>	1.4	%	0.9	%
Expected term <sup>(4)</sup>	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 the four years prior to the grant.

(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 estimated 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 267,376 and 292,885 shares of common stock in connection with new restricted stock grants and the exercise of stock options during the 12 weeks ended September 10, 2016 and September 12, 2015, respectively.

During the 12 weeks ended September 10, 2016 and September 12, 2015, the Company canceled 136,438 and 306,210 shares, respectively, of common stock issued under restricted stock awards as a result of forfeitures.

The Company issued 2,411,533 and 2,230,891 shares of common stock in connection with new restricted stock grants and the exercise of stock options during the 36 weeks ended September 10, 2016 and September 12, 2015, respectively. During the 36 weeks ended September 10, 2016 and September 12, 2015, the Company canceled 728,230 and 510,211 shares, respectively, of common stock issued under restricted stock awards as a result of forfeitures.

## 10. RETIREMENT PLANS

The following is a summary of net pension and Supplemental Executive Retirement Plan expense recognized by the Company.

(In millions)	12 Weeks Ended		36 Weeks Ended	
	September 10, 2016	September 12, 2015	September 10, 2016	September 12, 2015
Service cost pertaining to benefits earned during the period	\$ 1.5	\$ 2.1	\$ 4.5	\$ 6.3
Interest cost on projected benefit obligations	4.5	4.2	13.3	12.7
Expected return on pension assets	(4.6 )	(4.7 )	(13.9 )	(14.2 )
Net amortization loss	1.1	4.8	3.4	14.5
Net pension expense	\$ 2.5	\$ 6.4	\$ 7.3	\$ 19.3

## 11. INCOME TAXES

The Company maintains certain strategic management and operational activities in overseas subsidiaries, and its foreign earnings are taxed at rates that are generally lower than the U.S. federal statutory income tax rate. A significant amount of the Company's earnings are generated by its Canadian, European and Asia Pacific subsidiaries and, to a lesser extent, in other foreign jurisdictions that are not subject to income tax. The Company has not provided for U.S. taxes for earnings generated in foreign jurisdictions because it plans to reinvest these earnings indefinitely outside the U.S. However, if certain foreign earnings previously treated as permanently reinvested are repatriated, the additional U.S. tax liability could have a material adverse effect on the Company's after-tax results of operations, financial position and cash flows.

The Company's effective tax rate for the 12 weeks ended September 10, 2016 and September 12, 2015 was 19.5% and 29.0%, respectively. For the 36 weeks ended September 10, 2016 and September 12, 2015, the Company's effective tax rate was 24.1%

Table of Contents

and 29.0%, respectively. The lower effective tax rate in the current year periods reflects changes in income between tax jurisdictions with differing tax rates and certain favorable discrete items in the current year.

The Company is subject to periodic audits by domestic and foreign tax authorities. Currently, the Company is undergoing routine periodic audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next 12 months as a result of the audits; however, any payment of tax is not expected to be significant to the consolidated financial statements.

The Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2011 in the majority of tax jurisdictions.

**12. LITIGATION AND CONTINGENCIES**

The Company is involved in various environmental claims and other legal actions arising in the normal course of business. The environmental claims include sites where the U.S. Environmental Protection Agency has notified the Company that it is a potentially responsible party with respect to environmental remediation. These remediation claims are subject to ongoing environmental impact studies, assessment of remediation alternatives, allocation of costs between responsible parties and concurrence by regulatory authorities and have not yet advanced to a stage where the Company's liability is fixed. However, after taking into consideration legal counsel's evaluation of all actions and claims against the Company, it is management's opinion that the outcome of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company is also involved in routine non-environmental 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 and liabilities that have been recorded along with applicable insurance, it is management's opinion that the outcome of these items will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Minimum future royalty and advertising obligations for the fiscal periods subsequent to September 10, 2016 under the terms of certain licenses held by the Company are as follows:

(In millions)	2016	2017	2018	2019	2020	Thereafter
Minimum royalties	\$0.4	\$2.0	\$1.4	\$1.5	\$1.5	\$ —
Minimum advertising	0.9	3.2	3.3	3.4	3.5	7.4

Minimum royalties are based on both fixed obligations and assumptions regarding the Consumer Price Index. Royalty obligations in excess of minimum requirements are based upon future sales levels. In accordance with these agreements, the Company incurred royalty expense of \$0.5 million and \$0.5 million for the 12 weeks ended September 10, 2016 and September 12, 2015, respectively. For the 36 weeks ended September 10, 2016 and September 12, 2015, the Company incurred royalty expense, in accordance with these agreements, of \$1.4 million and \$1.4 million, respectively.

The terms of certain license agreements also require the Company to make advertising expenditures based on the level of sales of the licensed products. In accordance with these agreements, the Company incurred advertising expense of \$0.7 million and \$0.6 million for the 12 weeks ended September 10, 2016 and September 12, 2015, respectively. For the 36 weeks ended September 10, 2016 and September 12, 2015, the Company incurred advertising expense, in accordance with these agreements, of \$2.3 million and \$2.4 million, respectively.

**13. BUSINESS SEGMENTS**

During the first quarter of fiscal 2016, the Company's portfolio of brands was realigned into the following four operating segments, which the Company has determined to be reportable operating segments.

- Wolverine Outdoor & Lifestyle Group, consisting of Merrell® footwear and apparel, Cat® footwear, Hush Puppies® footwear and apparel, Chaco® footwear, Sebago® footwear and apparel and Cushe® footwear;
- Wolverine Boston Group, consisting of Sperry® footwear and apparel, Saucony® footwear and apparel and Keds® footwear and apparel;
- Wolverine Heritage Group, consisting of Wolverine® footwear and apparel, Bates® uniform footwear, Harley-Davidson® footwear and HyTest® safety footwear; and



Table of Contents

- Wolverine Multi-Brand Group, consisting of Stride Rite® footwear and apparel and the Company's multi-brand consumer-direct businesses.

The reportable segments are engaged in designing, manufacturing, sourcing, marketing, licensing and distributing branded footwear, apparel and accessories. Reported revenue for the reportable operating segments includes revenue from the sale of branded footwear, apparel and accessories to third-party customers; revenue from third-party licensees and distributors; and revenue from the Company's consumer-direct businesses.

The Company also reports "Other" and "Corporate" categories. The Other category consists of the Company's leather marketing operations and sourcing operations that include third-party commission revenues. The Corporate category consists of unallocated corporate expenses, including restructuring and impairment costs. The Company's operating segments are determined based on how the Company internally reports and evaluates financial information used to make operating decisions. The operating segment managers all report directly to the chief operating decision maker. Company management uses various financial measures to evaluate the performance of the reportable operating segments. The following is a summary of certain key financial measures for the respective fiscal periods indicated. All prior period amounts have been restated to reflect the new reportable operating segments.

(In millions)	12 Weeks Ended		36 Weeks Ended	
	September 10, 2016	September 12, 2015	September 10, 2016	September 12, 2015
Revenue:				
Wolverine Outdoor & Lifestyle Group	\$219.1	\$ 252.7	\$639.8	\$ 694.1
Wolverine Boston Group	202.4	222.3	629.7	697.3
Wolverine Heritage Group	86.0	87.3	232.0	247.9
Wolverine Multi-Brand Group	80.5	95.9	218.6	249.3
Other	15.7	20.7	44.9	51.8
Total	\$603.7	\$ 678.9	\$1,765.0	\$ 1,940.4
Operating profit (loss):				
Wolverine Outdoor & Lifestyle Group	\$43.2	\$ 59.8	\$126.7	\$ 150.4
Wolverine Boston Group	30.7	29.7	89.3	106.3
Wolverine Heritage Group	13.3	14.8	30.1	37.6
Wolverine Multi-Brand Group	5.9	7.2	7.1	9.7
Other	1.4	1.8	3.5	4.1
Corporate	(25.5 )	(37.4 )	(111.9 )	(121.0 )
Total	\$69.0	\$ 75.9	\$144.8	\$ 187.1
(In millions)	September 10, 2016		January 2, 2016	
	2016	2016	2015	
Total assets:				
Wolverine Outdoor & Lifestyle Group	\$ 481.4	\$ 444.2	\$ 522.3	
Wolverine Boston Group	1,309.6	1,324.2	1,330.5	
Wolverine Heritage Group	162.0	169.9	186.3	
Wolverine Multi-Brand Group	179.9	204.3	217.1	
Other	31.4	23.9	22.6	
Corporate	594.7	267.9	298.4	
Total	\$ 2,759.0	\$ 2,434.4	\$ 2,577.2	
Goodwill:				
Wolverine Outdoor & Lifestyle Group	\$ 128.2	\$ 130.4	\$ 131.3	
Wolverine Boston Group	258.9	256.2	258.3	
Wolverine Heritage Group	16.5	16.5	16.5	
Wolverine Multi-Brand Group	26.0	26.0	26.0	
Total	\$ 429.6	\$ 429.1	\$ 432.1	





Table of Contents**14. RESTRUCTURING ACTIVITIES****2014 Plan**

On July 9, 2014, the Board of Directors of the Company approved a realignment of the Company's consumer-direct operations (the "2014 Plan"). As a part of the 2014 Plan, the Company closed 136 retail stores, consolidated certain consumer-direct support functions and implemented certain other organizational changes. The Company completed the 2014 Plan during the first quarter of fiscal 2016. Costs incurred related to the 2014 Plan have been recorded within the Corporate category. The cumulative costs incurred is \$49.5 million, with \$6.5 million recorded in the restructuring costs line item as a component of cost of goods sold, and \$43.0 million recorded in the restructuring and impairment costs line item as a component of operating expenses. Approximately \$23.0 million represents non-cash charges. The Company expects annual pretax benefits of approximately \$16.0 million as a result of the 2014 Plan. The Company estimates the majority of the remaining restructuring reserve will be settled during the remainder of fiscal 2016, with the exception of a lease liability that extends into 2019.

The following is a summary of the activity during the 36 weeks ended September 10, 2016 and September 12, 2015, with respect to a reserve established by the Company in connection with the 2014 Plan, by category of costs.

(In millions)	Severance and employee related	Impairment of property and equipment	Costs associated with exit or disposal activities	Total
Balance at January 3, 2015	\$ 1.0	\$ —	\$ 6.5	\$7.5
Restructuring and impairment costs	1.8	0.3	0.4	2.5
Amounts paid	(1.9 )	—	(4.2 )	(6.1 )
Charges against assets	—	(0.3 )	(1.8 )	(2.1 )
Balance at September 12, 2015	\$ 0.9	\$ —	\$ 0.9	\$1.8
Balance at January 2, 2016	\$ 2.1	\$ —	\$ 6.5	\$8.6
Restructuring and impairment costs	1.2	0.2	9.6	11.0
Amounts paid	(3.3 )	—	(5.7 )	(9.0 )
Charges against assets	—	(0.2 )	(6.9 )	(7.1 )
Balance at September 10, 2016	\$ —	\$ —	\$ 3.5	\$3.5

**Other Restructuring Activities**

During the 36 weeks ended September 10, 2016, the Company recorded restructuring costs of \$6.3 million in connection with certain organizational changes made during fiscal 2016. The costs associated with these restructuring activities were recorded within the Company's Corporate category included in the restructuring and impairment costs line item as a component of operating expenses in the consolidated condensed statements of operations and comprehensive income. The Company estimates another \$4.0 million to \$5.0 million of costs will be incurred during the fourth quarter of fiscal 2016 to complete these organizational changes.

During the 36 weeks ended September 10, 2016, the Company recorded restructuring costs of \$0.3 million in connection with the Company's decision to wind-down operations of its Cush® brand. During the 36 weeks ended September 12, 2015, the Company recorded restructuring and impairment costs of \$4.1 million related to its Cushe brand. These costs included \$2.6 million related to indefinite-lived intangibles and \$1.5 million in other restructuring costs. The Company recorded these costs within its Corporate category in the restructuring and impairment costs line item as a component of operating expenses in the consolidated condensed statements of operations and comprehensive income.

**15. SUBSIDIARY GUARANTORS OF THE PUBLIC BONDS**

The following tables present consolidated condensed financial information for (a) the Company (for purposes of this discussion and table, "Parent"); (b) the guarantors of the Public Bonds, which include substantially all of the domestic, 100% owned subsidiaries of the Parent ("Subsidiary Guarantors"); and (c) the wholly- and partially-owned foreign subsidiaries of the Parent, which do not guarantee the Public Bonds ("Non-Guarantor Subsidiaries"). Separate financial

statements of the Subsidiary Guarantors are not presented because they are fully and unconditionally, jointly and severally liable under the guarantees, except for normal and customary release provisions.

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Operations and Comprehensive Income

For the 12 Weeks Ended September 10, 2016

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$—	\$ 671.7	\$ 146.7	\$ (214.7 )	\$ 603.7
Cost of goods sold	0.8	487.3	74.4	(196.4 )	366.1
Restructuring costs	—	0.1	0.2	—	0.3
Gross profit (loss)	(0.8 )	184.3	72.1	(18.3 )	237.3
Selling, general and administrative expenses	8.3	126.6	50.8	(18.3 )	167.4
Restructuring and impairment costs	—	0.7	0.2	—	0.9
Operating profit (loss)	(9.1 )	57.0	21.1	—	69.0
Other expenses:					
Interest expense (income), net	8.7	—	(0.1 )	—	8.6
Debt extinguishment and other costs	0.5	—	—	—	0.5
Other expense (income), net	6.0	(6.0 )	—	—	—
Total other expenses (income)	15.2	(6.0 )	(0.1 )	—	9.1
Earnings (loss) before income taxes	(24.3 )	63.0	21.2	—	59.9
Income tax expense (benefit)	(12.4 )	29.5	(5.4 )	—	11.7
Earnings (loss) before equity in earnings (loss) of consolidated subsidiaries	(11.9 )	33.5	26.6	—	48.2
Equity in earnings (loss) of consolidated subsidiaries	60.1	(4.8 )	43.2	(98.5 )	—
Net earnings	48.2	28.7	69.8	(98.5 )	48.2
Less: net earnings attributable to noncontrolling interest	—	—	—	—	—
Net earnings attributable to Wolverine World Wide, Inc.	\$48.2	\$ 28.7	\$ 69.8	\$ (98.5 )	\$ 48.2
Comprehensive income	\$46.5	\$ 28.7	\$ 66.3	\$ (95.0 )	\$ 46.5
Less: comprehensive income attributable to noncontrolling interest	0.4	—	0.4	(0.4 )	0.4
Comprehensive income attributable to Wolverine World Wide, Inc.	\$46.1	\$ 28.7	\$ 65.9	\$ (94.6 )	\$ 46.1

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Operations and Comprehensive Income

For the 12 Weeks Ended September 12, 2015

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 149.6	\$ 1,016.0	\$ 213.9	\$ (700.6 )	\$ 678.9
Cost of goods sold	108.3	860.7	121.2	(683.0 )	407.2
Gross profit	41.3	155.3	92.7	(17.6 )	271.7
Selling, general and administrative expenses	37.4	107.9	63.4	(17.7 )	191.0
Restructuring and impairment costs	1.4	1.7	1.7	—	4.8
Operating profit	2.5	45.7	27.6	0.1	75.9
Other expenses:					
Interest expense, net	9.0	—	—	—	9.0
Debt extinguishment and other costs	1.6	—	—	—	1.6
Other expense, net	—	0.3	0.2	—	0.5
Total other expenses	10.6	0.3	0.2	—	11.1
Earnings (loss) before income taxes	(8.1 )	45.4	27.4	0.1	64.8
Income tax expense (benefit)	(3.4 )	18.4	3.8	—	18.8
Earnings (loss) before equity in earnings of consolidated subsidiaries	(4.7 )	27.0	23.6	0.1	46.0
Equity in earnings of consolidated subsidiaries	50.5	14.8	31.7	(97.0 )	—
Net earnings	45.8	41.8	55.3	(96.9 )	46.0
Less: net income attributable to noncontrolling interest	—	—	0.2	—	0.2
Net earnings attributable to Wolverine World Wide, Inc.	\$ 45.8	\$ 41.8	\$ 55.1	\$ (96.9 )	\$ 45.8
Comprehensive income	\$ 32.3	\$ 41.8	\$ 41.9	\$ (83.2 )	\$ 32.8
Less: comprehensive loss attributable to noncontrolling interest	(1.3 )	—	(0.8 )	1.3	(0.8 )
Comprehensive income attributable to Wolverine World Wide, Inc.	\$ 33.6	\$ 41.8	\$ 42.7	\$ (84.5 )	\$ 33.6

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Operations and Comprehensive Income

For the 36 Weeks Ended September 10, 2016

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$—	\$1,980.4	\$ 406.2	\$ (621.6 )	\$ 1,765.0
Cost of goods sold	4.1	1,428.6	205.1	(569.7 )	1,068.1
Restructuring costs	0.3	3.7	0.2	—	4.2
Gross profit (loss)	(4.4 )	548.1	200.9	(51.9 )	692.7
Selling, general and administrative expenses	53.7	386.1	146.6	(51.9 )	534.5
Restructuring and impairment costs	1.6	7.9	3.9	—	13.4
Operating (loss) profit	(59.7 )	154.1	50.4	—	144.8
Other expenses:					
Interest expense (income), net	25.4	(0.2 )	(0.3 )	—	24.9
Debt extinguishment and other costs	0.5	—	—	—	0.5
Other expense (income), net	6.4	(5.4 )	—	—	1.0
Total other expenses (income)	32.3	(5.6 )	(0.3 )	—	26.4
Earnings (loss) before income taxes	(92.0 )	159.7	50.7	—	118.4
Income taxes (benefit)	(38.5 )	66.8	0.2	—	28.5
Earnings (loss) before equity in earnings of consolidated subsidiaries	(53.5 )	92.9	50.5	—	89.9
Equity in earnings of consolidated subsidiaries	143.1	30.2	52.9	(226.2 )	—
Net earnings	89.6	123.1	103.4	(226.2 )	89.9
Less: net earnings attributable to noncontrolling interests	—	—	0.3	—	0.3
Net earnings attributable to Wolverine World Wide, Inc.	\$89.6	\$123.1	\$ 103.1	\$ (226.2 )	\$ 89.6
Comprehensive income	\$86.3	\$123.1	\$ 103.2	\$ (226.0 )	\$ 86.6
Less: comprehensive income attributable to noncontrolling interest		—	0.3		0.3
Comprehensive income attributable to Wolverine World Wide, Inc.	\$86.3	\$123.1	\$ 102.9	\$ (226.0 )	\$ 86.3

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Operations and Comprehensive Income

For the 36 Weeks Ended September 12, 2015

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$418.9	\$2,949.0	\$ 587.4	\$ (2,014.9 )	\$ 1,940.4
Cost of goods sold	309.6	2,487.8	326.8	(1,963.3 )	1,160.9
Gross profit	109.3	461.2	260.6	(51.6 )	779.5
Selling, general and administrative expenses	127.6	323.1	185.8	(51.6 )	584.9
Restructuring and impairment costs	2.9	2.9	1.7	—	7.5
Operating profit (loss)	(21.2 )	135.2	73.1	—	187.1
Other expenses:					
Interest expense (income), net	27.4	0.2	(0.1 )	—	27.5
Debt extinguishment and other costs	1.6	—	—	—	1.6
Other expense (income), net	2.2	(0.6 )	(0.3 )	—	1.3
Total other expenses (income)	31.2	(0.4 )	(0.4 )	—	30.4
Earnings (loss) before income taxes	(52.4 )	135.6	73.5	—	156.7
Income taxes (benefit)	(20.4 )	53.0	12.8	—	45.4
Earnings (loss) before equity in earnings of consolidated subsidiaries	(32.0 )	82.6	60.7	—	111.3
Equity in earnings of consolidated subsidiaries	143.2	53.9	93.8	(290.9 )	—
Net earnings	111.2	136.5	154.5	(290.9 )	111.3
Less: net income attributable to noncontrolling interests	—	—	0.1	—	0.1
Net earnings attributable to Wolverine World Wide, Inc.	\$111.2	\$136.5	\$ 154.4	\$ (290.9 )	\$ 111.2
Comprehensive income	\$91.3	\$136.5	\$ 128.9	\$ (265.3 )	\$ 91.4
Less: comprehensive loss attributable to noncontrolling interest	(1.3 )	—	(1.2 )	1.3	(1.2 )
Comprehensive income attributable to Wolverine World Wide, Inc.	\$92.6	\$136.5	\$ 130.1	\$ (266.6 )	\$ 92.6

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

As of September 10, 2016

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$346.9	\$ 1.8	\$ 182.2	\$ —	\$ 530.9
Accounts receivable, net	7.7	200.3	101.5	—	309.5
Inventories:					
Finished products, net	—	350.6	95.0	—	445.6
Raw materials and work-in-process, net	—	3.1	8.9	—	12.0
Total inventories	—	353.7	103.9	—	457.6
Prepaid expenses and other current assets	9.3	20.8	12.5	—	42.6
Total current assets	363.9	576.6	400.1	—	1,340.6
Property, plant and equipment:					
Gross cost	184.0	239.2	31.1	—	454.3
Accumulated depreciation	(143.4 )	(146.9 )	(15.2 )	—	(305.5 )
Property, plant and equipment, net	40.6	92.3	15.9	—	148.8
Other assets:					
Goodwill	2.7	353.7	73.2	—	429.6
Indefinite-lived intangibles	—	679.3	6.3	—	685.6
Amortizable intangibles, net	0.1	87.0	—	—	87.1
Deferred income taxes	—	—	3.3	—	3.3
Other	51.3	9.0	3.7	—	64.0
Intercompany accounts receivable	22.2	3,465.8	614.2	(4,102.2 )	—
Investment in affiliates	3,621.6	893.9	1,104.7	(5,620.2 )	—
Total other assets	3,697.9	5,488.7	1,805.4	(9,722.4 )	1,269.6
Total assets	\$4,102.4	\$ 6,157.6	\$ 2,221.4	\$ (9,722.4 )	\$ 2,759.0

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets - continued

As of September 10, 2016

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$32.3	\$ 104.0	\$ 31.7	\$ —	\$ 168.0
Accrued salaries and wages	12.6	7.7	6.3	—	26.6
Other accrued liabilities	43.4	58.3	33.8	—	135.5
Current maturities of long-term debt	393.5	—	—	—	393.5
Borrowings under revolving credit agreements	—	—	1.2	—	1.2
Total current liabilities	481.8	170.0	73.0	—	724.8
Long-term debt, less current maturities	657.1	0.6	—	—	657.7
Accrued pension liabilities	93.8	17.6	—	—	111.4
Deferred income taxes	(75.5 )	249.8	1.8	—	176.1
Other liabilities	25.6	19.3	3.4	—	48.3
Intercompany accounts payable	1,887.4	1,720.2	494.6	(4,102.2 )	—
Stockholders' equity:					
Wolverine World Wide, Inc. stockholders' equity	1,032.2	3,980.1	1,640.1	(5,620.2 )	1,032.2
Noncontrolling interest	—	—	8.5	—	8.5
Total stockholders' equity	1,032.2	3,980.1	1,648.6	(5,620.2 )	1,040.7
Total liabilities and stockholders' equity	\$4,102.4	\$ 6,157.6	\$ 2,221.4	\$ (9,722.4 )	\$ 2,759.0



Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

As of January 2, 2016

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$27.2	\$ 2.6	\$ 164.3	\$ —	\$ 194.1
Accounts receivable, net	84.8	105.8	108.3	—	298.9
Inventories:					
Finished products, net	(0.8 )	371.7	77.1	—	448.0
Raw materials and work-in-process, net	0.8	1.8	16.0	—	18.6
Total inventories	—	373.5	93.1	—	466.6
Prepaid expenses and other current assets	10.7	24.9	18.6	—	54.2
Total current assets	122.7	506.8	384.3	—	1,013.8
Property, plant and equipment:					
Gross cost	228.4	170.5	32.6	—	431.5
Accumulated depreciation	(178.1 )	(103.6 )	(18.2 )	—	(299.9 )
Property, plant and equipment, net	50.3	66.9	14.4	—	131.6
Other assets:					
Goodwill	2.7	353.3	73.1	—	429.1
Indefinite-lived intangibles	3.8	675.3	6.3	—	685.4
Amortizable intangibles, net	0.6	96.7	—	—	97.3
Deferred income taxes	—	—	3.7	—	3.7
Other	54.1	15.6	3.8	—	73.5
Intercompany accounts receivable	19.8	3,002.0	583.9	(3,605.7 )	—
Investment in affiliates	3,388.4	854.0	949.4	(5,191.8 )	—
Total other assets	3,469.4	4,996.9	1,620.2	(8,797.5 )	1,289.0
Total assets	\$3,642.4	\$ 5,570.6	\$ 2,018.9	\$ (8,797.5 )	\$ 2,434.4

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets - continued

As of January 2, 2016

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$37.3	\$ 98.7	\$ 63.7	\$ —	\$ 199.7
Accrued salaries and wages	17.2	4.3	7.0	—	28.5
Other accrued liabilities	42.6	35.6	30.0	—	108.2
Current maturities of long-term debt	16.9	—	—	—	16.9
Total current liabilities	114.0	138.6	100.7	—	353.3
Long-term debt, less current maturities	792.3	0.6	—	—	792.9
Accrued pension liabilities	91.2	18.4	—	—	109.6
Deferred income taxes	(75.2 )	249.8	4.0	—	178.6
Other liabilities	17.0	11.2	2.1	—	30.3
Intercompany accounts payable	1,739.4	1,360.0	506.3	(3,605.7 )	—
Stockholders' equity:					
Wolverine World Wide, Inc. stockholders' equity	963.7	3,792.0	1,399.8	(5,191.8 )	963.7
Noncontrolling interest	—	—	6.0	—	6.0
Total stockholders' equity	963.7	3,792.0	1,405.8	(5,191.8 )	969.7
Total liabilities and stockholders' equity	\$3,642.4	\$ 5,570.6	\$ 2,018.9	\$ (8,797.5 )	\$ 2,434.4

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

As of September 12, 2015

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$49.5	\$ 3.0	\$ 143.9	\$ —	\$ 196.4
Accounts receivable, net	104.1	136.2	134.3	—	374.6
Inventories:					
Finished products, net	93.3	294.9	93.0	—	481.2
Raw materials and work-in-process, net	0.5	1.4	12.4	—	14.3
Total inventories	93.8	296.3	105.4	—	495.5
Deferred income taxes	12.8	14.0	1.2	—	28.0
Prepaid expenses and other current assets	10.3	18.5	10.9	—	39.7
Total current assets	270.5	468.0	395.7	—	1,134.2
Property, plant and equipment:					
Gross cost	242.7	164.3	32.0	—	439.0
Accumulated depreciation	(189.6 )	(84.8 )	(20.3 )	—	(294.7 )
Property, plant and equipment, net	53.1	79.5	11.7	—	144.3
Other assets:					
Goodwill	7.8	353.0	71.3	—	432.1
Indefinite-lived intangibles	3.8	674.9	9.2	—	687.9
Amortizable intangibles, net	0.5	101.2	0.1	—	101.8
Deferred income taxes	—	—	2.8	—	2.8
Other	52.9	17.4	3.8	—	74.1
Intercompany accounts receivable	22.1	2,742.4	640.3	(3,404.8 )	—
Investment in affiliates	3,271.5	1,054.0	1,019.9	(5,345.4 )	—
Total other assets	3,358.6	4,942.9	1,747.4	(8,750.2 )	1,298.7
Total assets	\$3,682.2	\$ 5,490.4	\$ 2,154.8	\$ (8,750.2 )	\$ 2,577.2

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets - continued

As of September 12, 2015

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$54.8	\$ 69.5	\$ 58.8	\$ —	\$ 183.1
Accrued salaries and wages	18.2	5.0	7.5	—	30.7
Other accrued liabilities	15.7	81.7	40.9	—	138.3
Current maturities of long-term debt	11.2	—	—	—	11.2
Total current liabilities	99.9	156.2	107.2	—	363.3
Long-term debt, less current maturities	802.8	0.6	—	—	803.4
Accrued pension liabilities	110.6	20.7	—	—	131.3
Deferred income taxes	(57.9 )	274.7	2.8	—	219.6
Other liabilities	20.1	10.9	2.0	—	33.0
Intercompany accounts payable	1,683.4	1,112.2	609.2	(3,404.8 )	—
Stockholders' equity:					
Wolverine World Wide, Inc. stockholders' equity	1,023.3	3,915.1	1,430.3	(5,345.4 )	1,023.3
Noncontrolling interest	—	—	3.3	—	3.3
Total stockholders' equity	1,023.3	3,915.1	1,433.6	(5,345.4 )	1,026.6
Total liabilities and stockholders' equity	\$3,682.2	\$ 5,490.4	\$ 2,154.8	\$ (8,750.2 )	\$ 2,577.2

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Cash Flow

For the 36 Weeks Ended September 10, 2016

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ 110.9	\$ 15.7	\$ 16.6	\$	—\$ 143.2
INVESTING ACTIVITIES					
Additions to property, plant and equipment	(5.9 )	(25.3 )	(3.2 )	—	(34.4 )
Investment in joint venture	—	—	(0.5 )	—	(0.5 )
Other	1.6	8.8	—	—	10.4
Net cash used in investing activities	(4.3 )	(16.5 )	(3.7 )	—	(24.5 )
FINANCING ACTIVITIES					
Net borrowings under revolving credit agreements	—	—	1.2	—	1.2
Borrowings of long-term debt	250.0	—	—	—	250.0
Payments on long-term debt	(5.7 )	—	—	—	(5.7 )
Payments of debt issuance costs	(3.4 )	—	—	—	(3.4 )
Cash dividends paid	(17.7 )	—	—	—	(17.7 )
Purchase of common stock for treasury	(11.4 )	—	—	—	(11.4 )
Purchases of shares under employee stock plans	(4.7 )	—	—	—	(4.7 )
Proceeds from the exercise of stock options	5.6	—	—	—	5.6
Excess tax benefits from stock-based compensation	0.4	—	—	—	0.4
Contributions from noncontrolling interests	—	—	2.2	—	2.2
Net cash provided by financing activities	213.1	—	3.4	—	216.5
Effect of foreign exchange rate changes	—	—	1.6	—	1.6
Increase (decrease) in cash and cash equivalents	319.7	(0.8 )	17.9	—	336.8
Cash and cash equivalents at beginning of the year	27.2	2.6	164.3	—	194.1
Cash and cash equivalents at end of the period	\$ 346.9	\$ 1.8	\$ 182.2	\$	—\$ 530.9

Table of Contents

## WOLVERINE WORLD WIDE, INC. AND SUBSIDIARIES

## Consolidated Condensed Statements of Cash Flow

For the 36 Weeks Ended September 12, 2015

(Unaudited)

(In millions)	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 146.4	\$ 19.2	\$ (55.8)	) \$	—\$ 109.8
INVESTING ACTIVITIES					
Additions to property, plant and equipment	(10.5 )	(14.2 )	(3.9 )	—	(28.6 )
Other	1.0	(5.3 )	—	—	(4.3 )
Net cash used in investing activities	(9.5 )	(19.5 )	(3.9 )	—	(32.9 )
FINANCING ACTIVITIES					
Borrowings of long-term debt	450.0	—	—	—	450.0
Payments on long-term debt	(525.2 )	—	—	—	(525.2 )
Payments of debt issuance costs	(2.4 )	—	—	—	(2.4 )
Cash dividends paid	(18.3 )	—	—	—	(18.3 )
Purchase of common stock for treasury	(12.6 )	—	—	—	(12.6 )
Purchases of shares under employee stock plans	(7.6 )	—	—	—	(7.6 )
Proceeds from the exercise of stock options	12.8	—	—	—	12.8
Excess tax benefits from stock-based compensation	4.5	—	—	—	4.5
Net cash used in financing activities	(98.8 )	—	—	—	(98.8 )
Effect of foreign exchange rate changes	—	—	(5.5 )	—	(5.5 )
Increase (decrease) in cash and cash equivalents	38.1	(0.3 )	(65.2 )	—	(27.4 )
Cash and cash equivalents at beginning of the year	11.4	3.3	209.1	—	223.8
Cash and cash equivalents at end of the period	\$49.5	\$ 3.0	\$ 143.9	\$	—\$ 196.4

Table of Contents

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

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 Company's consolidated condensed financial statements and related notes included elsewhere in this Quarterly Report.

OVERVIEW

BUSINESS OVERVIEW

The Company is a leading global designer, manufacturer and marketer of branded footwear, apparel and accessories. The Company's vision statement is "to build a family of the most admired performance and lifestyle brands on earth." The Company seeks to fulfill this vision by offering innovative products and compelling brand propositions; complementing its footwear brands with strong apparel and accessories offerings; expanding its global consumer-direct footprint; and delivering supply chain excellence.

The Company's brands are marketed in approximately 200 countries and territories at September 10, 2016, including through owned operations in the U.S., Canada, the United Kingdom and certain countries in continental Europe and Asia Pacific. In other regions (Latin America, portions of Europe and Asia Pacific, the Middle East and Africa), the Company relies on a network of third-party distributors, licensees and joint ventures. At September 10, 2016, the Company operated 344 retail stores in the United States and Canada and 56 consumer-direct websites.

2016 FINANCIAL OVERVIEW

Revenue was \$603.7 million for the third quarter of fiscal 2016, representing a decline of 11.1% versus the third quarter of fiscal 2015. The change in revenue reflected a 13.3% decline from the Outdoor & Lifestyle Group, a 9.0% decline from the Boston Group, a 1.5% decline from the Heritage Group and a 16.1% decline from the Multi-Brand Group. Revenue was negatively impacted by a challenging U.S. retail environment, the closure of Company retail stores, the exit of the Cushe® business and unfavorable foreign exchange rates.

Gross margin declined 70 basis points to 39.3% in the third quarter of fiscal 2016 driven by unfavorable foreign currency rates.

The effective tax rate in the third quarter of fiscal 2016 was 19.5% compared to 29.0% in the third quarter of fiscal 2015. The lower effective tax rate in the current year period reflects changes in income between tax jurisdictions with differing tax rates and favorable discrete items in the current year.

Diluted earnings per share for the third quarter of fiscal 2016 and the third quarter of fiscal 2015 was \$0.49 per share and \$0.44 per share, respectively.

The Company repurchased 417,816 shares during the quarter at an average price of \$23.55 per share.

Inventory declined 7.6% in the third quarter of fiscal 2016 versus the prior year.

The Company declared cash dividends of \$0.06 per share in both the third quarter of fiscal 2016 and fiscal 2015.

Table of Contents

## RESULTS OF OPERATIONS

(In millions, except per share data)	12 Weeks Ended			36 Weeks Ended		
	September 2016	September 2015	Percent Change	September 2016	September 2015	Percent Change
Revenue	\$603.7	\$ 678.9	(11.1 )%	\$1,765.0	\$ 1,940.4	(9.0 )%
Cost of goods sold	366.1	407.2	(10.1 )	1,068.1	1,160.9	(8.0 )
Restructuring costs	0.3	—	—	4.2	—	—
Gross profit	237.3	271.7	(12.7 )	692.7	779.5	(11.1 )
Selling, general and administrative expenses	167.4	191.0	(12.4 )	534.5	584.9	(8.6 )
Restructuring and impairment costs	0.9	4.8	(81.3 )	13.4	7.5	78.7
Operating profit	69.0	75.9	(9.1 )	144.8	187.1	(22.6 )
Interest expense, net	8.6	9.0	(4.4 )	24.9	27.5	(9.5 )
Debt extinguishment and other costs	0.5	1.6	(68.8 )	0.5	1.6	(68.8 )
Other expense, net	—	0.5	(100.0)	1.0	1.3	(23.1 )
Earnings before income taxes	59.9	64.8	(7.6 )	118.4	156.7	(24.4 )
Income tax expense	11.7	18.8	(37.8 )	28.5	45.4	(37.2 )
Net earnings	48.2	46.0	4.8	89.9	111.3	(19.2 )
Less: net earnings attributable to noncontrolling interest	—	0.2	(100.0)	0.3	0.1	200.0
Net earnings attributable to Wolverine World Wide, Inc.	\$48.2	\$ 45.8	5.2 %	\$89.6	\$ 111.2	(19.4 )%

Diluted earnings per share \$0.49 \$ 0.44 11.4 % \$0.91 \$ 1.08 (15.7 )%

## REVENUE

Revenue was \$603.7 million for the third quarter of fiscal 2016, a decrease of 11.1% from the third quarter of fiscal 2015. The change in revenue reflected a 13.3% decline from the Outdoor & Lifestyle Group, a 9.0% decline from the Boston Group, a 1.5% decline from the Heritage Group and a 16.1% decline from the Multi-Brand Group. Revenue was negatively impacted by a challenging U.S. retail environment which resulted in higher inventories at key retail partners, lower consumer traffic and lower spending in the Company's brick and mortar retail stores. Revenue was also lower as a result of the closure of Company retail stores (\$9.7 million) and the exit of the Cushe<sup>®</sup> business (\$4.3 million). Changes in foreign exchange rates decreased reported revenues by approximately \$4.1 million for the third quarter of fiscal 2016.

Revenue was \$1,765.0 million for the first three quarters of fiscal 2016, a decrease of 9.0% from the first three quarters of fiscal 2015. The change in revenue reflected a decline of 7.8% from the Outdoor & Lifestyle Group, a 9.7% decline from the Boston Group, a 6.4% decline from the Heritage Group and a 12.3% decline from the Multi-Brand Group. Revenue growth was negatively impacted by the closure of Company retail stores (\$21.4 million) and the exit of the Cushe<sup>®</sup> business (\$10.1 million). Changes in foreign exchange rates decreased reported revenues by approximately \$13.0 million for the first three quarters of fiscal 2016.

## GROSS MARGIN

Gross margin was 39.3% in the third quarter of fiscal 2016 compared to 40.0% in the third quarter of fiscal 2015.

Gross margin was negatively impacted by unfavorable foreign currency rates.

Gross margin was 39.2% for the first three quarters of fiscal 2016 compared to 40.2% in the first three quarters of fiscal 2015. The decline in gross margin was driven by unfavorable foreign currency (100 basis points) and higher restructuring costs (30 basis points), which were partially offset by favorable product costs (30 basis points).

## OPERATING EXPENSES

Operating expenses decreased \$27.5 million, from \$195.8 million in the third quarter of fiscal 2015 to \$168.3 million in the third quarter of fiscal 2016. The decrease was driven by lower advertising costs (\$6.9 million), lower selling costs (\$5.4 million), lower retail store operating costs (\$5.2 million), lower pension expense (\$3.9 million), lower restructuring and impairment expenses (\$3.9 million) and lower incentive compensation costs (\$2.3 million). Changes



in foreign exchange rates decreased operating expenses by approximately \$1.4 million for the third quarter of fiscal 2016.

Table of Contents

Operating expenses decreased \$44.5 million, from \$592.4 million in the first three quarters of fiscal 2015 to \$547.9 million in the first three quarters of fiscal 2016. The decrease was driven by lower retail store operating costs (\$12.6 million), lower pension expense (\$12.0 million), lower advertising costs (\$11.6 million), lower selling costs (\$11.5 million) and lower incentive compensation costs (\$6.0 million), which were partially offset by higher restructuring and impairment expenses (\$5.9 million). Changes in foreign exchange rates decreased operating expenses by approximately \$4.4 million for the first three quarters of fiscal 2016.

**INTEREST, OTHER AND INCOME TAXES**

Net interest expense was \$8.6 million in the third quarter of fiscal 2016 compared to \$9.0 million in the third quarter of fiscal 2015. Net interest expense was \$24.9 million in the first three quarters of fiscal 2016 compared to \$27.5 million in the first three quarters of fiscal 2015. The decrease in interest expense in both periods was primarily driven by higher interest income and benefits of the third quarter fiscal 2015 debt refinancing.

The Company maintains management and operational activities in overseas subsidiaries, and its foreign earnings are taxed at rates that are generally lower than the U.S. federal statutory income tax rate. A significant amount of the Company's earnings are generated by its Canadian, European and Asian subsidiaries and, to a lesser extent, in jurisdictions that are not subject to income tax. The Company has not provided for U.S. taxes for earnings generated in foreign jurisdictions because it intends to reinvest these earnings indefinitely outside the U.S. However, if certain foreign earnings previously treated as permanently reinvested are repatriated, the additional U.S. tax liability could have a material adverse effect on the Company's results of operations and financial position.

The Company's effective tax rate was 19.5% in the third quarter of fiscal 2016, compared to 29.0% in the third quarter of fiscal 2015. The Company's effective tax rate was 24.1% in the first three quarters of fiscal 2016, compared to 29.0% in the first three quarters of fiscal 2015. The lower effective tax rate in the current year periods reflects changes in income between tax jurisdictions with differing tax rates and certain favorable discrete items in the current year.

**REPORTABLE OPERATING SEGMENTS**

During the first quarter of fiscal 2016, the Company's portfolio of brands was realigned into the following four operating segments, which the Company has determined to be reportable operating segments.

- Wolverine Outdoor & Lifestyle Group, consisting of Merrell® footwear and apparel, Cat® footwear, Hush Puppies® footwear and apparel, Chaco® footwear, Sebago® footwear and apparel and Cushe® footwear;
- Wolverine Boston Group, consisting of Sperry® footwear and apparel, Saucony® footwear and apparel and Keds® footwear and apparel;
- Wolverine Heritage Group, consisting of Wolverine® footwear and apparel, Bates® uniform footwear, Harley-Davidson® footwear and HyTest® safety footwear; and
- Wolverine Multi-Brand Group, consisting of Stride Rite® footwear and apparel and the Company's multi-brand consumer-direct businesses.

The Company also reports "Other" and "Corporate" categories. The Other category consists of the Company's leather marketing operations and sourcing operations that include third-party commission revenues. The Corporate category consists of unallocated corporate expenses, including restructuring and impairment costs.

The current quarter and prior year reportable operating segment results are as follows:

(In millions)	12 Weeks Ended				36 Weeks Ended			
	September 2016	September 2015	Change	Percent Change	September 2016	September 2015	Change	Percent Change
<b>REVENUE</b>								
Wolverine Outdoor & Lifestyle Group	\$219.1	\$252.7	\$(33.6)	(13.3)%	\$639.8	\$694.1	\$(54.3)	(7.8)%
Wolverine Boston Group	202.4	222.3	(19.9)	(9.0)	629.7	697.3	(67.6)	(9.7)
Wolverine Heritage Group	86.0	87.3	(1.3)	(1.5)	232.0	247.9	(15.9)	(6.4)
Wolverine Multi-Brand Group	80.5	95.9	(15.4)	(16.1)	218.6	249.3	(30.7)	(12.3)
Other	15.7	20.7	(5.0)	(24.2)	44.9	51.8	(6.9)	(13.3)
Total	\$603.7	\$678.9	\$(75.2)	(11.1)%	\$1,765.0	\$1,940.4	\$(175.4)	(9.0)%



Table of Contents

(In millions)	12 Weeks Ended				36 Weeks Ended			
	September 2016	September 2015	Change	Percent Change	September 2016	September 2015	Change	Percent Change
<b>OPERATING PROFIT (LOSS)</b>								
Wolverine Outdoor & Lifestyle Group	\$43.2	\$ 59.8	\$(16.6)	(27.8)%	\$126.7	\$ 150.4	\$(23.7)	(15.8)%
Wolverine Boston Group	30.7	29.7	1.0	3.4	89.3	106.3	(17.0)	(16.0)
Wolverine Heritage Group	13.3	14.8	(1.5)	(10.1)	30.1	37.6	(7.5)	(19.9)
Wolverine Multi-Brand Group	5.9	7.2	(1.3)	(18.1)	7.1	9.7	(2.6)	(26.8)
Other	1.4	1.8	(0.4)	(22.2)	3.5	4.1	(0.6)	(14.6)
Corporate	(25.5)	(37.4)	11.9	31.8	(111.9)	(121.0)	9.1	7.5
Total	\$69.0	\$ 75.9	\$(6.9)	(9.1)%	\$144.8	\$ 187.1	\$(42.3)	(22.6)%

Further information regarding the reportable operating segments can be found in Note 13 to the consolidated condensed financial statements.

#### Wolverine Outdoor & Lifestyle Group

The Outdoor & Lifestyle Group's revenue decreased \$33.6 million, or 13.3%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. Changes in foreign exchange rates decreased third quarter of fiscal 2016 revenues by approximately \$3.4 million. The reported revenue decrease resulted from the exit of the Cushe® business (\$4.3 million), a high teens revenue decline for Merrell®, a high single-digit decrease for Cat® footwear, a high single digit decrease for Hush Puppies®, partially offset by a low thirties revenue increase for Chaco®. The Outdoor & Lifestyle Group's revenue decreased \$54.3 million, or 7.8%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. Changes in foreign exchange rates decreased the first three quarters of fiscal 2016 revenues by approximately \$9.3 million. The reported revenue decrease resulted from the exit of the Cushe® business (\$10.1 million), a high single-digit revenue decline for Merrell® and a low teens decrease for Cat® footwear and Hush Puppies®, partially offset by a mid twenties revenue increase for the Chaco® brand.

The Merrell® revenue decrease in both periods was due to lower demand reflecting continuing challenges in the U.S. retail environment from high customer inventories, bankruptcies, the strategic decision to exit the wholesale channel for apparel and changes in foreign exchange rates, partially offset by a low thirties growth rate for eCommerce. The Cat® footwear revenue decrease in both periods was due to lower demand in the U.S. and EMEA due to a soft retail market, declines in the oil industry and changes in foreign exchange rates. The Hush Puppies® revenue decrease in both periods was due to changes in foreign exchange rates, fewer closeout sales due to leaner inventories and lower demand within Europe. The Chaco® revenue increase in both periods resulted from strong brand momentum and consumer engagement resulting in increased shipments.

The Outdoor & Lifestyle Group's operating profit decreased \$16.6 million, or 27.8%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. The Outdoor & Lifestyle Group's operating profit decreased \$23.7 million, or 15.8%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. The change in both periods reflects higher operating profit from Chaco® due to increased revenues and better gross margins from product costing improvements, which was more than offset by the revenue declines within the other brands.

#### Wolverine Boston Group

The Boston Group's revenue decreased \$19.9 million, or 9.0%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. Changes in foreign exchange rates reduced third quarter of fiscal 2016 revenues by approximately \$0.6 million. The reported revenue decrease included a mid teens revenue decrease for Saucony®, a mid single-digit revenue decline for Sperry® and a mid single-digit revenue decrease for Keds®. The Boston Group's revenue decreased \$67.6 million, or 9.7%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. Changes in foreign exchange rates reduced the first three quarters of fiscal 2016 revenues by approximately \$2.8 million. The reported revenue decrease included a low-teens revenue decline for Sperry®, a high single-digit revenue decrease for Saucony® and a mid single-digit revenue decrease for Keds®.

The Sperry® decrease in both periods was due to lower demand for its boat shoe and certain other casual products partially offset by growth in boots. The Saucony® decrease in both periods included lower demand within the U.S. due to higher inventories at key customers, domestic retail bankruptcies and the negative impact of foreign exchange rates, partially offset by growth in Europe.

## Table of Contents

The Keds® decrease in both periods was due to lower demand for its core Champion product in the U.S. market, partially offset by growth in Latin America and Asia.

The Boston Group's operating profit increased \$1.0 million, or 3.4%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015 due primarily to increased profitability from Sperry® and Keds® due to higher gross margins and lower advertising expenses partially offset by lower revenues, and lower gross margins for Saucony®. The Boston Group's operating profit decreased \$17.0 million, or 16.0%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. The lower year-to-date operating profit was driven by lower revenues and lower gross margins due to unfavorable foreign currency contracts and incremental closeout sales for Saucony®.

### Wolverine Heritage Group

The Heritage Group's revenue decreased \$1.3 million, or 1.5%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. The reported revenue decrease included a mid teens revenue decline for Wolverine®, partially offset by a low fifties revenue increase for Bates®. The Heritage Group's revenue decreased \$15.9 million, or 6.4%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. The reported revenue decrease included a mid teens revenue decline for Wolverine® and a mid teens revenue decline for Harley-Davidson®, partially offset by a low twenties revenue increase for Bates®.

The revenue decrease for Wolverine® in both periods was attributable to lower demand within the U.S. due to a soft U.S. retail market and declines in the oil industry. The Harley-Davidson® revenue decline in the first three quarters of fiscal 2016 was driven by a decline in U.S. motorcycle sales. The Bates® increase in both periods was driven by increases in military contract awards.

The Heritage Group's operating profit decreased \$1.5 million, or 10.1%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. The Heritage Group's operating profit decreased \$7.5 million, or 19.9%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. The decreases in both periods were attributable to the revenue decline and lower gross margin for Bates® and Harley-Davidson®. The gross margin decline for Bates® was due to a higher percentage of low margin Department of Defense contract business and the gross margin decline for Harley-Davidson® was due to unfavorable product mix.

### Wolverine Multi-Brand Group

The Multi-Brand Group revenue decreased \$15.4 million, or 16.1%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015 and decreased \$30.7 million, or 12.3%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. The decrease in both periods was due to store closures, lower traffic and lower wholesale closeout sales.

The Multi-Brand Group's operating profit decreased \$1.3 million, or 18.1%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015 and decreased \$2.6 million, or 26.8%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. The decrease in both periods was due to lower gross margins resulting from higher promotions, partially offset by lower operating expenses due to store closures.

### Other

The Other category's revenues decreased \$5.0 million, or 24.2%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015 and decreased \$6.9 million, or 13.3%, in the first three quarters of fiscal 2016 compared to the first three quarters of fiscal 2015. The decreases in both periods were primarily due to decreased demand within the performance leathers business and lower third party sourcing commissions.

### Corporate

Corporate expenses were \$25.5 million in the third quarter of fiscal 2016 compared to \$37.4 million in the third quarter of fiscal 2015. The \$11.9 million decrease was driven by lower pension expense (\$3.9 million), lower restructuring and impairment expenses (\$3.6 million) and lower incentive compensation costs (\$2.3 million). Corporate expenses were \$111.9 million in the first three quarters of fiscal 2016 compared to \$121.0 million in the first three quarters of fiscal 2015. The \$9.1 million decrease was driven by lower pension expense (\$12.0 million) and lower incentive compensation costs (\$6.0 million), partially offset by higher restructuring and impairment costs (\$10.1 million).



Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

(In millions)	September 10, 2016	January 2, 2016 (3)	September 12, 2015
Cash and cash equivalents	\$ 530.9	\$ 194.1	\$ 196.4
Debt <sup>(1)</sup>	1,052.4	809.8	814.6
Borrowings under revolving credit agreements	1.2	—	—
Available Revolving Credit Facility <sup>(2)</sup>	497.4	496.2	496.4

(1) Amounts include long-term debt less unamortized debt issuance costs, borrowings under the revolving credit agreements and a capital lease.

(2) Amounts shown are net of outstanding letters of credit, which reduce availability under the Revolving Credit Facility.

The debt balance at September 10, 2016 includes the \$250.0 million Senior Notes issuance on August 30, 2016.

(3) Subsequent to the end of the third quarter, the Company used these proceeds and additional borrowings on Term Loan A to redeem the \$375.0 million Public Bonds.

(In millions)	36 Weeks Ended	
	September 10, 2016	September 12, 2015
Net cash provided by operating activities	\$ 143.2	\$ 109.8
Net cash used in investing activities	(24.5 )	(32.9 )
Net cash provided by (used in) financing activities	216.5	(98.8 )
Additions to property, plant and equipment	34.4	28.6
Depreciation and amortization	30.0	32.8

## Liquidity

Cash and cash equivalents of \$530.9 million as of September 10, 2016 were \$334.5 million higher compared to September 12, 2015. The increase includes the proceeds from the \$250.0 million Senior Notes issuance on August 30, 2016. The Company had \$497.4 million of borrowing capacity available under the Revolving Credit Facility as of September 10, 2016. Cash and cash equivalents located in foreign jurisdictions totaled \$182.0 million as of September 10, 2016. The Company intends to permanently reinvest cash in these foreign locations.

Subsequent to the end of the third quarter of fiscal 2016, on September 15, 2016, the Company executed an amendment to the Credit Agreement, which increased the outstanding principal balance of Term Loan A by \$150.0 million, and increased the amount the Company can borrow under the Revolving Credit Facility by \$100.0 million.

Cash flow from operating activities, along with borrowings on the Revolving Credit Facility, if any, are expected to be sufficient to meet the Company's working capital needs for the foreseeable future. Any excess cash flow from operating activities are expected to be used to fund organic growth initiatives, reduce debt, pay dividends, repurchase the Company's common stock and pursue acquisitions.

## Operating Activities

The principal source of the Company's operating cash flow is net earnings, including cash receipts from the sale of the Company's products, net of costs of goods sold.

For the first three quarters of fiscal 2016, an increase in net working capital represented a use of cash of \$0.5 million. Working capital balances were unfavorably impacted by an increase in accounts receivable of \$12.7 million and a decrease in accounts payable of \$34.7 million, which were partially offset by an increase in other operating liabilities of \$29.5 million and a decrease in inventories and other operating assets of \$8.3 million and \$10.1 million, respectively.

## Investing Activities

The Company made capital expenditures of \$34.4 million in the first three quarters of fiscal 2016 compared to \$28.6 million in the first three quarters of fiscal 2015. The majority of the capital expenditures in the first three quarters of fiscal 2016 and fiscal 2015 were for building improvements, information system enhancements, and retail store investments. The increase in expenditures during the first three quarters of fiscal 2016 is due primarily to building improvements for the Company's new Boston office.



Financing Activities

As of September 10, 2016, the Company was in compliance with all covenants and performance ratios under the Credit Agreement.

## Table of Contents

The Company's debt at September 10, 2016 totaled \$1,052.4 million compared to \$809.8 million at January 2, 2016. The increase is due to the \$250.0 million Senior Notes issuance on August 30, 2016. Subsequent to the end of the third quarter of fiscal 2016, the Company redeemed the \$375.0 million Public Bonds and increased the principal balance of Term Loan A by \$150.0 million. The net increase to the Company's long-term debt for these transactions was \$25.0 million.

Due to the early redemption of the Public Bonds, the Company estimates that it will incur debt extinguishment costs of approximately \$18.0 million in the fourth quarter of fiscal 2016. This amount includes a \$13.1 million early redemption premium and the write-off of the unamortized balance of the deferred financing fees related to the original debt issuance.

The Company repurchased \$15.8 million of shares during the first three quarters of fiscal 2016 and \$12.6 million of shares during the first three quarters of fiscal 2015. The Company may purchase up to an additional \$290.6 million of shares under its existing common stock repurchase program that expires in 2020. The Company also acquired \$4.7 million of shares in the first three quarters of fiscal 2016 in connection with employee transactions related to stock incentive plans.

The Company declared cash dividends of \$0.06 per share, or \$5.8 million and \$6.1 million, for the third quarter of fiscal 2016 and fiscal 2015, respectively. The 2016 dividend is payable on November 1, 2016 to shareholders of record on October 3, 2016.

### CRITICAL ACCOUNTING POLICIES

The preparation of the Company's consolidated financial statements, which have been prepared in accordance with U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Historically, actual results have not been materially different from the Company's estimates. However, actual results may differ materially from these estimates under different assumptions or conditions.

The Company has identified the critical accounting policies used in determining estimates and assumptions in the amounts reported in its Management Discussion and Analysis of Financial Conditions and Results of Operations in its 2015 Form 10-K. Management believes there have been no material changes in those critical accounting policies.

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

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. The Company manages these risks by attempting to denominate contractual and other foreign arrangements in U.S. dollars. 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 Quarterly Report on Form 10-Q, the Company does not know of any material change in the near-term in the general nature of its primary market risk exposure.

Under the provisions of FASB ASC 815, the Company is required to recognize all derivatives on the balance sheet at fair value. Derivatives that are not qualifying hedges must be adjusted to fair value through earnings. If a derivative is a qualifying hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in AOCI until the hedged item is recognized in earnings.

The Company conducts wholesale operations outside of the U.S. in Canada, continental Europe, United Kingdom, Colombia, Hong Kong, China and Mexico where the functional currencies are primarily the Canadian dollar, euro, British pound, Colombian peso, Hong Kong dollar, Chinese renminbi and Mexican peso, respectively. The Company utilizes foreign currency forward exchange contracts to manage the volatility associated primarily with U.S. dollar inventory purchases made by non-U.S. wholesale operations in the normal course of business as well as to manage foreign currency translation exposure. At September 10, 2016 and September 12, 2015, the Company had outstanding forward currency exchange contracts to purchase primarily U.S. dollars in the amounts of \$161.4 million and \$194.0

million, respectively, with maturities ranging up to 335 and 356 days, respectively.

The Company also has sourcing locations in Asia, where financial statements reflect the U.S. dollar as the functional currency. However, operating costs are paid in the local currency. Revenue generated by the Company from third-party foreign licensees is calculated in the local currencies, but paid in U.S. dollars. Accordingly, the Company's reported results are subject to foreign currency exposure for this stream of revenue and expenses. Any associated foreign currency gains or losses on the settlement of local currency amounts are reflected within the Company's consolidated statement of operations.

Table of Contents

Assets and liabilities outside the U.S. are primarily located in the United Kingdom, Canada and the Netherlands. The Company's investments in foreign subsidiaries with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, the Company currently does not hedge these net investments. At September 10, 2016, a weaker U.S. dollar compared to certain foreign currencies increased the value of these investments in net assets by \$4.4 million from their value at January 2, 2016. At September 12, 2015, a stronger U.S. dollar compared to foreign currencies decreased the value of these investments in net assets by \$21.0 million from their value at January 3, 2015.

The Company is exposed to interest rate changes primarily as a result of interest expense on borrowings used to finance acquisitions and working capital requirements. As of September 10, 2016, the Company had no outstanding borrowings and outstanding letters of credit of \$2.6 million under the Revolving Credit Facility and \$1.2 million in borrowings under foreign revolving line of credit facilities. The Company's total variable-rate debt was \$439.9 million at September 10, 2016 and the Company held one interest rate swap agreement denominated in U.S. dollars that effectively converts \$249.1 million to fixed-rate debt.

The Company does not enter into contracts for speculative or trading purposes, nor is it a party to any leveraged derivative instruments.

**ITEM 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on, and as of the time of such evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15(e), were effective as of the end of the period covered by this report. There have been no changes during the quarter ended September 10, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 1A. Risk Factors**

There have been no material changes in the assessment of the Company's risk factors from those set forth in its 2015 Form 10-K.

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

The following table provides information regarding the Company's purchases of its own common stock during the third quarter of fiscal 2016.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Amount that May Yet Be Purchased Under the Plans or Programs
Period 7 (June 19, 2016 to July 16, 2016)				
Common Stock Repurchase Program <sup>(1)</sup>	—	\$ —	—	\$101,401,471
Employee Transactions <sup>(2)</sup>	20,616	20.77	—	
Period 8 (July 17, 2016 to August 13, 2016)				
Common Stock Repurchase Program <sup>(1)</sup>	18,185	23.76	18,185	\$100,969,428
Employee Transactions <sup>(2)</sup>	10,134	24.36	—	
Period 9 (August 14, 2016 to September 10, 2016)				
Common Stock Repurchase Program <sup>(1)</sup>	399,631	23.54	399,631	\$290,592,027

Employee Transactions <sup>(2)</sup>	—	—	—	
Total for Quarter Ended September 10, 2016				
Common Stock Repurchase Program <sup>(1)</sup>	417,816	\$ 23.55	417,816	\$290,592,027
Employee Transactions <sup>(2)</sup>	30,750	21.95	—	

The Company's Board of Directors approved a common stock repurchase program on February 11, 2014. This program, which was terminated on August 8, 2016, authorized the repurchase of up to \$200 million of common stock. On August 8, 2016, the Company's Board of Directors approved a new common stock repurchase program that authorizes the repurchase of up

Table of Contents

to \$300 million in common stock over a four-year period, although the annual amount of any stock repurchases are restricted under the terms of the Company's Credit Agreement.

Employee transactions include: (1) shares delivered or attested to in satisfaction of the exercise price and/or tax withholding obligations by holders of employee stock options who exercised options, and (2) restricted shares and (2) units withheld to offset statutory minimum tax withholding that occurs upon vesting of restricted shares and units.

The Company's employee stock compensation plans provide that the shares delivered or attested to, or withheld, shall be valued at the closing price of the Company's common stock on the date the relevant transaction occurs.

ITEM 6. Exhibits

Exhibits filed as a part of this Form 10-Q are listed on the Exhibit Index, which is incorporated by reference herein.

Table of Contents

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.

October 19, 2016 /s/ Blake W. Krueger

Blake W. Krueger

Date Chairman, Chief Executive Officer and President

(Principal Executive Officer and Duly Authorized Signatory for Registrant)

October 19, 2016 /s/ Michael D. Stornant

Michael D. Stornant

Date Senior Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer and Duly Authorized Signatory for Registrant)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Document
3.1	Amended and Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 24, 2014.
3.2	Amended and Restated By-laws. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 19, 2015.
4.1	Senior Notes Indenture, dated as of August 30, 2016 among Wolverine World Wide, Inc., the guarantors listed on the signature pages therein, and Wells Fargo Bank, National Association, as Trustee. Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on September 6, 2016.
10.1	First Amendment, dated September 15, 2016, to the Amended and Restated Credit Agreement, dated July 13, 2015, among Wolverine World Wide, Inc., as parent borrower, the several banks and other financial institutions or entities from time to time parties thereto, the several agents and other financial institutions or entities from time to time parties thereto, J.P. Morgan Europe Limited, as foreign currency agent, and JPMorgan Chase Bank, N.A., as administrative agent. Incorporated by reference to Exhibit 10.1 to the Company Current Report on Form 8-K, filed on September 19, 2016.
31.1	Certification of Chairman, Chief Executive Officer and President under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President, Chief Financial Officer and Treasurer under Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. §1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.