

V F CORP  
Form 10-Q  
May 09, 2012  
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**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 quarterly period ended March 31, 2012

Commission file number: 1-5256

**V. F. CORPORATION**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

105 Corporate Center Boulevard

23-1180120  
(I.R.S. employer  
identification number)

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Greensboro, North Carolina 27408

(Address of principal executive offices)

(336) 424-6000

(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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one):

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

On April 28, 2012, there were 109,565,947 shares of the registrant's Common Stock outstanding.

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**VF CORPORATION**

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**Table of Contents****Part I Financial Information****Item 1 Financial Statements (Unaudited)****VF CORPORATION****Consolidated Balance Sheets****(Unaudited)****(In thousands, except share amounts)**

	<b>March 2012</b>	<b>December 2011</b>	<b>March 2011</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and equivalents	\$ 325,649	\$ 341,228	\$ 672,963
Accounts receivable, less allowance for doubtful accounts of: March 2012 - \$52,916; Dec. 2011 - \$54,010; March 2011 - \$47,365	1,206,179	1,120,246	892,294
Inventories:			
Finished products	1,267,073	1,197,928	938,437
Work in process	89,753	86,902	79,362
Materials and supplies	159,620	168,815	165,515
	1,516,446	1,453,645	1,183,314
Other current assets	315,059	272,825	201,457
Total current assets	3,363,333	3,187,944	2,950,028
<b>Property, Plant and Equipment</b>	<b>1,854,218</b>	<b>1,830,039</b>	<b>1,700,871</b>
Less accumulated depreciation	1,125,139	1,092,588	1,085,499
	729,079	737,451	615,372
<b>Intangible Assets</b>	<b>2,956,312</b>	<b>2,958,463</b>	<b>1,556,791</b>
<b>Goodwill</b>	<b>2,018,839</b>	<b>2,023,460</b>	<b>1,187,107</b>
<b>Other Assets</b>	<b>435,754</b>	<b>405,808</b>	<b>383,840</b>
Total assets	\$ 9,503,317	\$ 9,313,126	\$ 6,693,138
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Current Liabilities</b>			
Short-term borrowings	\$ 680,500	\$ 281,686	\$ 40,052
Current portion of long-term debt	2,789	2,744	2,722
Accounts payable	537,531	637,116	429,541
Accrued liabilities	683,500	744,486	564,531
Total current liabilities	1,904,320	1,666,032	1,036,846
<b>Long-term Debt</b>	<b>1,831,113</b>	<b>1,831,781</b>	<b>935,244</b>
<b>Other Liabilities</b>	<b>1,316,216</b>	<b>1,290,138</b>	<b>594,601</b>
<b>Commitments and Contingencies</b>			
<b>Stockholders Equity</b>			
Common stock, stated value \$1; shares authorized, 300,000,000; shares outstanding: March 2012 - 109,296,385; Dec. 2011 - 110,556,981; March 2011 - 109,013,967	109,296	110,557	109,014
Additional paid-in capital	2,384,636	2,316,107	2,159,204

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Accumulated other comprehensive income (loss)	(376,979)	(421,477)	(202,203)
Retained earnings	2,335,520	2,520,804	2,059,492
Total equity attributable to VF Corporation	4,452,473	4,525,991	4,125,507
Noncontrolling interests	(805)	(816)	940
Total stockholders' equity	4,451,668	4,525,175	4,126,447
Total liabilities and stockholders' equity	\$ 9,503,317	\$ 9,313,126	\$ 6,693,138

See notes to consolidated financial statements.

**Table of Contents****VF CORPORATION****Consolidated Statements of Income****(Unaudited)****(In thousands, except per share amounts)**

	<b>Three Months Ended March</b>	
	<b>2012</b>	<b>2011</b>
<b>Net Sales</b>	\$ 2,527,417	\$ 1,937,124
<b>Royalty Income</b>	29,038	21,675
<b>Total Revenues</b>	2,556,455	1,958,799
<b>Costs and Operating Expenses</b>		
Cost of goods sold	1,388,866	1,033,856
Marketing, administrative and general expenses	853,487	650,300
	2,242,353	1,684,156
<b>Operating Income</b>	314,102	274,643
<b>Other Income (Expense)</b>		
Interest income	1,038	966
Interest expense	(23,345)	(15,940)
Miscellaneous, net	1,746	(1,931)
	(20,561)	(16,905)
<b>Income Before Income Taxes</b>	293,541	257,738
<b>Income Taxes</b>	78,314	56,318
<b>Net Income</b>	215,227	201,420
<b>Net (Income) Loss Attributable to Noncontrolling Interests</b>	(11)	(717)
<b>Net Income Attributable to VF Corporation</b>	\$ 215,216	\$ 200,703
<b>Earnings Per Common Share Attributable to VF Corporation Common Stockholders</b>		
Basic	\$ 1.95	\$ 1.85
Diluted	1.91	1.82
<b>Cash Dividends Per Common Share</b>	\$ 0.72	\$ 0.63

See notes to consolidated financial statements.

**Table of Contents****VF CORPORATION****Consolidated Statements of Comprehensive Income****(Unaudited)****(In thousands)**

	<b>Three Months Ended March</b>	
	<b>2012</b>	<b>2011</b>
<b>Net Income</b>	\$ 215,227	\$ 201,420
<b>Other Comprehensive Income (Loss):</b>		
Foreign currency translation		
Gains (losses) arising during the period	49,494	96,695
Less income tax effect	(11,822)	(19,659)
Defined benefit pension plans		
Amortization of net deferred actuarial loss	17,618	10,764
Amortization of prior service cost	839	863
Less income tax effect	(6,957)	(4,181)
Derivative financial instruments		
Gains (losses) arising during the period	(7,711)	(26,170)
Less income tax effect	2,972	10,080
Reclassification to Net Income for (gains) losses realized	560	(2,910)
Less income tax effect	(216)	1,124
Marketable securities		
Gains (losses) arising during the period	(279)	(825)
Reclassification to Net Income for (gains) losses recognized		847
Less income tax effect		(237)
Other comprehensive income (loss)	44,498	66,391
Foreign currency translation gains (losses) attributable to noncontrolling interests		123
Other comprehensive income (loss) including noncontrolling interests	44,498	66,514
<b>Comprehensive Income</b>	259,725	267,934
<b>Comprehensive (Income) Loss Attributable to Noncontrolling Interests</b>	(11)	(840)
<b>Comprehensive Income Attributable to VF Corporation</b>	\$ 259,714	\$ 267,094

See notes to consolidated financial statements.

**Table of Contents****VF CORPORATION****Consolidated Statements of Cash Flows****(Unaudited)****(In thousands)**

	<b>Three Months Ended March</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Net income	\$ 215,227	\$ 201,420
Adjustments to reconcile net income to cash used by operating activities:		
Depreciation	35,064	30,096
Amortization of intangible assets	12,181	9,776
Other amortization	5,658	5,069
Stock-based compensation	22,922	13,702
Pension contributions under expense	17,829	10,817
Other, net	21,356	2,615
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(73,491)	(101,628)
Inventories	(55,174)	(101,511)
Other current assets	(6,657)	726
Accounts payable	(188,949)	(94,167)
Accrued compensation	(93,453)	(64,313)
Accrued income taxes	7,242	14,651
Accrued liabilities	(30,459)	8,922
Other assets and liabilities	(1,433)	30,960
Cash used by operating activities	(112,137)	(32,865)
<b>Investing Activities</b>		
Capital expenditures	(25,140)	(33,607)
Trademarks acquisition		(55,500)
Software purchases	(13,370)	(7,256)
Other, net	6,341	53
Cash used by investing activities	(32,169)	(96,310)
<b>Financing Activities</b>		
Net increase in short-term borrowings	397,595	3,427
Payments on long-term debt	(698)	(550)
Purchase of Common Stock	(210,840)	(2,453)
Cash dividends paid	(79,924)	(68,475)
Proceeds from issuance of Common Stock, net	(2,164)	46,036
Tax benefits of stock option exercises	22,055	8,384
Cash provided (used) by financing activities	126,024	(13,631)
<b>Effect of Foreign Currency Rate Changes on Cash and Equivalents</b>	2,703	23,530
<b>Net Change in Cash and Equivalents</b>	(15,579)	(119,276)
<b>Cash and Equivalents - Beginning of Year</b>	341,228	792,239
<b>Cash and Equivalents - End of Period</b>	\$ 325,649	\$ 672,963

See notes to consolidated financial statements.



**Table of Contents****VF CORPORATION****Consolidated Statements of Stockholders Equity****(Unaudited)****(In thousands)**

	VF Corporation Stockholders				
	Common Stock	Additional Paid-in Capital	Other Comprehensive Income (Loss)	Retained Earnings	Non- controlling Interests
<b>Balance, December 2010</b>	\$ 107,938	\$ 2,081,367	\$ (268,594)	\$ 1,940,508	\$ 100
Net income				888,089	2,304
Dividends on Common Stock				(285,722)	
Stock compensation plans, net	2,685	284,966		(15,645)	
Common Stock held in trust for deferred compensation plans	(66)			(6,426)	
Distributions to noncontrolling interests					(338)
Acquisition of remaining noncontrolling interest		(50,226)			(2,653)
Foreign currency translation			(45,432)		(229)
Defined benefit pension plans			(90,568)		
Derivative financial instruments			(12,451)		
Marketable securities			(4,432)		
<b>Balance, December 2011</b>	110,557	2,316,107	(421,477)	2,520,804	(816)
Net income				215,216	11
Dividends on Common Stock				(79,924)	
Purchase of treasury stock	(2,000)			(295,074)	
Stock compensation plans, net	742	68,529		(25,114)	
Common Stock held in trust for deferred compensation plans	(3)			(388)	
Foreign currency translation			37,672		
Defined benefit pension plans			11,500		
Derivative financial instruments			(4,395)		
Marketable securities			(279)		
<b>Balance, March 2012</b>	\$ 109,296	\$ 2,384,636	\$ (376,979)	\$ 2,335,520	\$ (805)

See notes to consolidated financial statements.

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**VF CORPORATION**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**Note A Basis of Presentation**

VF Corporation (and its subsidiaries, collectively known as "VF") uses a 52/53 week fiscal year ending on the Saturday closest to December 31 of each year. For presentation purposes herein, all references to periods ended March 2012, December 2011 and March 2011 relate to the fiscal periods ended on March 31, 2012, December 31, 2011 and April 2, 2011, respectively.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and notes required by generally accepted accounting principles ("GAAP") in the United States of America for complete financial statements. Similarly, the December 2011 consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by GAAP. In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to fairly present the consolidated financial position, results of operations and cash flows of VF for the interim periods presented. Operating results for the three months ended March 2012 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 29, 2012. For further information, refer to the consolidated financial statements and notes included in VF's Annual Report on Form 10-K for the year ended December 2011 ("2011 Form 10-K").

**Note B Acquisitions and Dispositions**

On September 13, 2011, VF acquired 100% of the outstanding shares of The Timberland Company ("Timberland") for \$2.3 billion in cash. The purchase price was funded by the issuance of \$900.0 million of term debt, together with available cash on hand and short term borrowings.

Timberland is a global footwear and apparel company based in New Hampshire whose primary brands are *Timberland*<sup>®</sup> and *SmartWool*<sup>®</sup>. The results of Timberland have been included in VF's consolidated financial statements since the date of acquisition and are reported as part of the Outdoor & Action Sports Coalition. Timberland contributed \$356.0 million of revenues and \$10.9 million of pretax earnings in the first quarter of 2012.

This acquisition strengthens VF's position within the outdoor apparel and footwear industry by adding two strong, global and authentic brands with significant momentum and growth opportunities. Factors that contributed to recognition of goodwill for the acquisition included (1) expected growth rates and profitability of Timberland, (2) the opportunity to leverage VF's skills to achieve higher growth in sales, income and cash flows of the business and (3) expected synergies with existing VF business units. Goodwill resulting from this transaction is not tax deductible and has been assigned to the Outdoor & Action Sports Coalition.

The *Timberland*<sup>®</sup> and *SmartWool*<sup>®</sup> trademarks and trade names, which management believes have indefinite lives, have been valued at \$1,274.1 million. Amortizable intangible assets have been assigned values of \$174.4 million for customer relationships, \$5.8 million for distributor agreements and \$4.5 million for license agreements. Customer relationships are being amortized using an accelerated method over 20 years. Distributor agreements and license agreements are being amortized on a straight-line basis over ten and five years, respectively.

The allocation of the purchase price is preliminary and subject to change, primarily for income tax matters. Accordingly, adjustments may be made to the values of the assets acquired and liabilities assumed as additional information is obtained about the facts and circumstances that existed at the valuation date. Goodwill decreased by \$15.7 million during the first quarter of 2012 related to revisions in the values of acquired income tax balances.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

In thousands	
Cash and equivalents	\$ 92,442
Inventories	390,180
Other current assets	318,755
Property, plant and equipment	89,581
Intangible assets	1,458,800
Other assets	37,253
<b>Total assets acquired</b>	<b>2,387,011</b>
Current liabilities	363,506
Other liabilities, primarily deferred income taxes	580,182
<b>Total liabilities assumed</b>	<b>943,688</b>
<b>Net assets acquired</b>	<b>1,443,323</b>
Goodwill	856,184
<b>Purchase price</b>	<b>\$ 2,299,507</b>

Unaudited pro forma results of operations for VF are presented below assuming that the 2011 acquisition of Timberland had occurred at the beginning of 2010.

In thousands, except per share amounts	
	Three Months Ended March 2011
Total Revenues	\$ 2,307,803
Net Income attributable to VF Corporation	210,149
Earnings per common share	
Basic	\$ 1.94
Diluted	1.91

Pro forma financial information is not necessarily indicative of VF's operating results if the acquisition had been effected at the date indicated, nor is it necessarily indicative of future operating results. Amounts do not include any marketing leverage, operating efficiencies or cost savings that VF believes are achievable.

Information on Timberland's historical filings with the Securities and Exchange Commission can be located at [www.sec.gov](http://www.sec.gov).

On March 8, 2012, VF announced an agreement for the sale of John Varvatos Enterprises, Inc. to Lion Capital LLP. This transaction closed on April 30, 2012.

**Note C Sale of Accounts Receivable**

VF has an agreement with a financial institution to sell selected trade accounts receivable on a nonrecourse basis. This agreement allows VF to have up to \$237.5 million of accounts receivable held by the financial institution at any point in time. After the sale, VF continues to service and collect these accounts receivable on behalf of the financial institution but does not retain any other interests in the receivables. At the end of March 2012, December 2011 and March 2011, accounts receivable in the Consolidated Balance Sheets had been reduced by \$156.6 million, \$115.4 million and \$140.1 million, respectively, related to balances sold under this program. During the first three months of 2012, VF sold \$299.6 million of accounts receivable at their stated amounts, less a funding fee of \$0.5 million, which was recorded in Miscellaneous Expense. Net proceeds of this program are classified in operating activities in the Consolidated Statements of Cash Flows.



**Table of Contents****Note D Intangible Assets**

Dollars in thousands	Weighted Average Amortization Period	Cost	March 2012		December 2011	
			Accumulated Amortization	Net Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable intangible assets:</b>						
Customer relationships	19 years	\$ 618,523	\$ 148,118	\$ 470,405	\$ 477,817	\$ 477,817
License agreements	24 years	183,917	61,594	122,323	124,239	124,239
Trademarks and other	8 years	19,392	8,097	11,295	11,934	11,934
<b>Amortizable intangible assets, net</b>				<b>604,023</b>	<b>613,990</b>	<b>613,990</b>
<b>Indefinite-lived intangible assets:</b>						
Trademarks and trade names				2,352,289	2,344,473	2,344,473
<b>Intangible assets, net</b>				<b>\$ 2,956,312</b>	<b>\$ 2,958,463</b>	<b>\$ 2,958,463</b>

Intangible assets are amortized using the following methods: customer relationships accelerated methods; license agreements accelerated and straight-line methods; trademarks and other straight-line method.

Amortization of intangible assets for the first quarter of 2012 was \$12.2 million and is expected to be \$48.7 million for the year ended 2012. Estimated amortization expense for the years ending 2013 through 2016 is \$46.3 million, \$44.6 million, \$42.8 million and \$41.1 million, respectively.

**Note E Goodwill**

In thousands	Outdoor & Action Sports			Contemporary Brands		Total
	Sports	Jeanswear	Imagewear	Sportswear	Brands	
Balances, December 2011	\$ 1,437,596	\$ 228,421	\$ 57,768	\$ 157,314	\$ 142,361	\$ 2,023,460
Adjustments to purchase price allocation	(15,700)		685			(15,015)
Currency translation	7,434	2,960				10,394
<b>Balances, March 2012</b>	<b>\$ 1,429,330</b>	<b>\$ 231,381</b>	<b>\$ 58,453</b>	<b>\$ 157,314</b>	<b>\$ 142,361</b>	<b>\$ 2,018,839</b>

Balances at December 2011 are net of cumulative impairment charges recorded as follows: Outdoor & Action Sports \$43.4 million, Sportswear \$58.5 million and Contemporary Brands \$195.2 million.

**Note F Pension Plans**

VF's pension cost was composed of the following components:

In thousands	Three Months Ended March	
	2012	2011
Service cost benefits earned during the year	\$ 5,811	\$ 5,182

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Interest cost on projected benefit obligations	19,249	19,705
Expected return on plan assets	(20,156)	(22,416)
Amortization of deferred amounts:		
Net deferred actuarial losses	17,618	10,764
Deferred prior service cost	839	863
Net periodic pension cost	\$ 23,361	\$ 14,098

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During the first three months of 2012, VF contributed \$5.5 million to its defined benefit pension plans. VF currently anticipates making \$9.1 million of additional contributions during the remainder of 2012.

**Note G Business Segment Information**

VF's businesses are grouped into product categories, and by brands within those product categories, for internal financial reporting used by management. These groupings of businesses within VF are referred to as coalitions and are the basis for VF's reportable business segments. Financial information for VF's reportable segments is as follows:

In thousands	Three Months Ended March	
	2012	2011
<b>Coalition revenues:</b>		
Outdoor & Action Sports	\$ 1,263,967	\$ 788,215
Jeanswear	741,711	679,243
Imagewear	277,521	246,808
Sportswear	122,915	111,894
Contemporary Brands	126,904	111,916
Other	23,437	20,723
<b>Total coalition revenues</b>	<b>\$ 2,556,455</b>	<b>\$ 1,958,799</b>
<b>Coalition profit:</b>		
Outdoor & Action Sports	\$ 201,700	\$ 143,905
Jeanswear	110,772	123,126
Imagewear	42,926	36,898
Sportswear	10,726	7,430
Contemporary Brands	14,858	9,684
Other	(1,610)	(2,074)
<b>Total coalition profit</b>	<b>379,372</b>	<b>318,969</b>
Corporate and other expenses	(63,524)	(46,257)
Interest, net	(22,307)	(14,974)
<b>Income before income taxes</b>	<b>\$ 293,541</b>	<b>\$ 257,738</b>

Timberland has been reported in the Outdoor & Action Sports Coalition since the acquisition date.

**Note H Capital and Accumulated Other Comprehensive Income (Loss)**

Common stock outstanding is net of shares held in treasury and, in substance, retired. There were 21,462,952 treasury shares at March 2012, 19,289,690 at December 2011 and 19,243,471 at March 2011. The excess of the cost of treasury shares acquired over the \$1 per share stated value of Common Stock is deducted from Retained Earnings. In addition, 239,345 shares of VF Common Stock at March 2012, 238,275 shares at December 2011 and 253,610 shares at March 2011 were held in connection with deferred compensation plans. These shares, having a cost of \$11.2 million, \$11.0 million and \$11.4 million at the respective dates, are treated as treasury shares for financial reporting purposes.

There are 25,000,000 authorized shares of Preferred Stock, \$1 par value, of which none are outstanding.

Comprehensive income includes net income and specified components of other comprehensive income (OCI). OCI consists of changes in assets and liabilities that are not included in net income under GAAP but are instead deferred and accumulated within a separate component of stockholders' equity in the balance sheet. VF's comprehensive income is presented in the Consolidated Statements of Comprehensive Income. The deferred components of other comprehensive income (loss) are reported, net of related income taxes, in Accumulated Other Comprehensive Income (Loss) in Stockholders' Equity, as follows:



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In thousands	March 2012	December 2011	March 2011
Foreign currency translation	\$ (13,487)	\$ (51,159)	\$ 71,309
Defined benefit pension plans	(345,193)	(356,693)	(258,679)
Derivative financial instruments	(18,562)	(14,167)	(19,592)
Marketable securities	263	542	4,759
Accumulated other comprehensive income (loss)	\$ (376,979)	\$ (421,477)	\$ (202,203)

**Note I Stock-based Compensation**

During the first three months of 2012, VF granted options to purchase 855,058 shares of Common Stock at an exercise price of \$145.58, equal to the market value of VF Common Stock on the option grant date. Employee stock options vest in equal annual installments over three years. Stock options granted to members of the Board of Directors become exercisable one year from the date of grant. The grant date fair value of all options was estimated using a lattice option-pricing valuation model, with the following assumptions: expected volatility ranging from 27% to 31%, with a weighted average of 30%; expected term of 5.6 to 7.5 years; expected dividend yield of 2.5%; and a risk-free interest rate ranging from 0.1% at six months to 2.1% at 10 years. The resulting weighted average fair value of these options at the grant date was \$33.43 per option.

Also during the first three months of 2012, VF granted 191,788 performance-based restricted stock units that enable the recipients to receive shares of VF Common Stock at the end of a three year period. The actual number of shares that will be earned can range from 0-200% of the target award, based on achievement of a three year baseline profitability goal and annually established performance goals set by the Compensation Committee of the Board of Directors. The actual number of earned shares may be adjusted upward or downward by 25% of the target award (but not below a zero percentage payout), based on VF's total shareholder return (TSR) over a three year period compared with the TSR for companies included in the Standard and Poor's 500 index.

VF granted 4,345 nonperformance-based restricted stock units to members of the Board of Directors during the first three months of 2012. These units vest upon grant and will be settled in shares of VF common stock one year from the date of grant. The fair value of VF's Common Stock at the date the units were granted was \$145.58 per share.

VF also granted, during the first three months of 2012, 5,500 shares of restricted VF Common Stock with a grant date fair value of \$141.77 per share. These shares will vest in 2016, assuming the grantees remain employed through the vesting date.

**Note J Income Taxes**

The effective income tax rate was 26.7% in the first quarter of 2012, compared with 21.9% in the first quarter of 2011. The first quarter of 2011 included \$8.2 million in tax benefits related to settlements of prior years' tax audits and \$2.8 million of tax benefits related to the realization of unrecognized tax benefits resulting from the expiration of statutes of limitations. The effective income tax rate for the full year 2011 was 23.6%.

VF files a consolidated U.S. federal income tax return, as well as separate and combined income tax returns in numerous states and foreign jurisdictions. In addition, Timberland filed a consolidated U.S. federal income tax return through the time of acquisition. The United States Internal Revenue Service (IRS) is currently examining VF's tax years 2007, 2008 and 2009 and Timberland's tax years 2008 and 2009. VF is currently subject to examination by various state tax authorities. While the outcome of any one examination is not expected to have a material impact on VF's consolidated financial statements, management regularly assesses the outcomes of both ongoing and future examinations to ensure VF's provision for income taxes is sufficient. Management believes that some of these audits and negotiations will conclude during the next 12 months.

During the first quarter of 2012, the amount of unrecognized tax benefits and associated interest decreased by \$1.6 million to \$101.1 million. Management believes that it is reasonably possible that the amount of unrecognized income tax benefits may decrease during the next 12 months by approximately \$12.2 million related to the completion of audits and other settlements with tax authorities and the expiration of statutes of limitations. Of the \$12.2 million, \$12.0 million would reduce income tax expense.

**Table of Contents****Note K Earnings Per Share**

In thousands, except per share amounts	Three Months Ended March	
	2012	2011
<b>Earnings per share basic:</b>		
Net income	\$ 215,227	\$ 201,420
Net (income) loss attributable to noncontrolling interests	(11)	(717)
Net income attributable to VF Corporation	\$ 215,216	\$ 200,703
<b>Weighted average Common Stock outstanding</b>	<b>110,527</b>	<b>108,222</b>
Earnings per common share attributable to VF Corporation common stockholders	\$ 1.95	\$ 1.85
<b>Earnings per common share diluted:</b>		
Net income attributable to VF Corporation	\$ 215,216	\$ 200,703
<b>Weighted average Common Stock outstanding</b>	<b>110,527</b>	<b>108,222</b>
Incremental shares from stock options and other dilutive securities	2,223	1,818
<b>Adjusted weighted average Common Stock outstanding</b>	<b>112,750</b>	<b>110,040</b>
Earnings per common share attributable to VF Corporation common stockholders	\$ 1.91	\$ 1.82

Outstanding options to purchase approximately 0.9 and 1.0 million shares of Common Stock for the quarters ended March 2012 and March 2011, respectively, were excluded from the computations of diluted earnings per share because the effect of their inclusion would have been antidilutive. In addition, approximately 0.4 million and 0.3 million performance-based restricted stock units were excluded from the computation of diluted earnings per share for the quarters ended March 2012 and 2011, respectively, because these units have not been earned yet in accordance with the vesting conditions of the plan.

**Note L Fair Value Measurements**

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market in an orderly transaction between market participants. In determining fair value, the accounting standards distinguish between (i) market data obtained or developed from independent sources (i.e., observable data inputs) and (ii) a reporting entity's own data and assumptions that market participants would use in pricing an asset or liability (i.e., unobservable data inputs). Financial assets and financial liabilities measured and reported at fair value are classified in a three level hierarchy that prioritizes the inputs used in the valuation process. The hierarchy is based on the observability and objectivity of the pricing inputs, as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Significant directly observable data (other than Level 1 quoted prices) or significant indirectly observable data through corroboration with observable market data. Inputs would normally be (i) quoted prices in active markets for similar assets or liabilities, (ii) quoted prices in inactive markets for identical or similar assets or liabilities or (iii) information derived from or corroborated by observable market data.

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Level 3 Prices or valuation techniques that require significant unobservable data inputs. Inputs would normally be a reporting entity's own data and judgments about assumptions that market participants would use in pricing the asset or liability. The fair value measurement level for an asset or liability is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table summarizes the classes of financial assets and financial liabilities measured and recorded at fair value on a recurring basis:

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	Fair Value Measurement Using:			
	Total Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
In thousands				
<u>March 2012</u>				
Financial assets:				
Cash equivalents:				
Money market funds	\$ 1,310	\$ 1,310	\$	\$
Time deposits	116,472	116,472		
Derivative instruments	26,035		26,035	
Investment securities	191,900	161,029	30,871	
Other marketable securities	4,635	4,635		
Financial liabilities:				
Derivative instruments	14,933		14,933	
Deferred compensation	242,710		242,710	
<u>December 2011</u>				
Financial assets:				
Cash equivalents:				
Money market funds	\$ 117	\$ 117	\$	\$
Time deposits	89,585	89,585		
Derivative instruments	46,328		46,328	
Investment securities	175,225	144,391	30,834	
Other marketable securities	4,913	4,913		
Financial liabilities:				
Derivative instruments	23,513		23,513	
Deferred compensation	220,056		220,056	

The financial assets and financial liabilities in the above table have been recorded in the financial statements at fair value. All other financial assets and financial liabilities are recorded in the financial statements at cost, except life insurance contracts which are recorded at cash surrender value. At March 2012 and December 2011, the carrying values of VF's cash held as demand deposits, accounts receivable, life insurance contracts, short-term borrowings, accounts payable and accrued liabilities approximated their fair values. At March 2012 and December 2011, the carrying value of VF's long-term debt, including the current portion, was \$1,833.9 million and \$1,834.5 million, respectively, compared with fair value of \$2,032.4 million and \$2,079.5 million at those dates. Fair value for long-term debt is a Level 2 estimate based on quoted market prices or values of comparable borrowings.

**Note M Derivative Financial Instruments and Hedging Activities**

*Summary of Derivative Instruments:* All of VF's outstanding derivative instruments are forward foreign exchange contracts. Most derivatives meet the criteria for hedge accounting at the inception of the hedging relationship, but a limited number of derivative contracts intended to hedge assets and liabilities are not designated as hedges for accounting purposes. Additionally, derivative instruments that are cash flow hedges of forecasted third party sales are redesignated as hedges near the end of their term and do not qualify for hedge accounting after the date of redesignation. The notional amounts of outstanding derivative contracts at March 2012, December 2011 and March 2011 totaled \$1.4 billion, \$1.5 billion and \$1.4 billion, respectively, consisting of contracts hedging primarily exposures to the euro, British pound, Mexican peso, Polish zloty, Japanese yen and Canadian dollar. Derivative contracts have maturities up to 20 months. The following table presents outstanding derivatives on an individual contract basis:

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In thousands	Fair Value of Derivatives with Unrealized Gains			Fair Value of Derivatives with Unrealized Losses		
	March 2012	December 2011	March 2011	March 2012	December 2011	March 2011
Foreign exchange contracts designated as hedging instruments	\$ 25,568	\$ 45,071	\$ 17,974	\$ 13,598	\$ 22,406	\$ 55,116
Foreign exchange contracts dedesignated as hedging instruments	335	1,245	797	1,070	930	353
Foreign exchange contracts not designated as hedging instruments	132	12		265	177	
Total derivatives	\$ 26,035	\$ 46,328	\$ 18,771	\$ 14,933	\$ 23,513	\$ 55,469

Outstanding derivatives have been included in the Consolidated Balance Sheets and classified as current or noncurrent based on the derivatives maturity dates, as follows:

In thousands	March 2012	December 2011	March 2011
Other current assets	\$ 23,874	\$ 39,076	\$ 16,936
Accrued current liabilities	(13,315)	(19,326)	(50,265)
Other assets (noncurrent)	2,161	7,252	1,835
Other liabilities (noncurrent)	(1,618)	(4,187)	(5,204)

*Fair Value Hedges:* VF enters into derivative contracts to hedge intercompany balances