

V F CORP
Form 10-Q
November 03, 2006

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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 September 30, 2006
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)

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

105 Corporate Center Boulevard
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 is a large accelerated filer, accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Securities and Exchange Act of 1934. (check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities and Exchange Act of 1934). YES NO

On October 28, 2006, there were 111,765,470 shares of the registrant's Common Stock outstanding.

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

	Three Months Ended		Nine Months Ended	
	September		September	
	2006	2005	2006	2005
Net Sales	\$ 2,015,213	\$ 1,803,064	\$ 5,209,673	\$ 4,802,538
Royalty Income	18,576	19,022	56,677	53,840
Total Revenues	2,033,789	1,822,086	5,266,350	4,856,378
Costs and Operating Expenses				
Cost of goods sold	1,173,149	1,055,613	3,049,549	2,812,989
Marketing, administrative and general expenses	553,871	478,471	1,545,878	1,415,098
	1,727,020	1,534,084	4,595,427	4,228,087
Operating Income	306,769	288,002	670,923	628,291
Other Income (Expense)				
Interest income	1,439	1,402	4,149	6,459
Interest expense	(15,842)	(19,357)	(42,394)	(56,521)
Miscellaneous, net	1,272	819	2,070	801
	(13,131)	(17,136)	(36,175)	(49,261)
Income Before Income Taxes	293,638	270,866	634,748	579,030
Income Taxes	95,931	91,236	209,824	187,965
Income Before Cumulative Effect of a Change in Accounting Policy	197,707	179,630	424,924	391,065
Cumulative Effect of a Change in Accounting Policy				(11,833)
Net Income	\$ 197,707	\$ 179,630	\$ 424,924	\$ 379,232

Earnings Per Common Share Basic

Income before cumulative effect of a change in accounting policy	\$	1.78	\$	1.61	\$	3.85	\$	3.51
Cumulative effect of a change in accounting policy								(0.11)
Net income		1.78		1.61		3.85		3.40

Earnings Per Common Share Diluted

Income before cumulative effect of a change in accounting policy		1.75		1.57		3.77		3.43
Cumulative effect of a change in accounting policy								(0.10)
Net income		1.75		1.57		3.77		3.32

Weighted Average Shares Outstanding

Basic		110,802		111,114		110,179		111,043
Diluted		113,062		114,146		112,649		114,139

Cash Dividends Per Common Share

See notes to consolidated financial statements.	\$	0.55	\$	0.27	\$	1.39	\$	0.81
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VF CORPORATION
Consolidated Balance Sheets
(Unaudited)
(In thousands, except share amounts)

	September 2006	December 2005	September 2005
ASSETS			
Current Assets			
Cash and equivalents	\$ 154,196	\$ 296,557	\$ 215,549
Accounts receivable, less allowance for doubtful accounts of: Sept. 2006 \$53,487; Dec. 2005 \$55,328; Sept. 2005 \$63,614	1,191,303	764,184	950,649
Inventories:			
Finished products	983,006	853,309	953,536
Work in process	85,512	86,568	87,820
Materials and supplies	127,636	141,203	128,742
	1,196,154	1,081,080	1,170,098
Other current assets	223,814	223,555	199,464
Total current assets	2,765,467	2,365,376	2,535,760
Property, Plant and Equipment	1,601,144	1,551,411	1,535,247
Less accumulated depreciation	993,943	987,356	978,079
	607,201	564,055	557,168
Intangible Assets	761,895	744,313	749,997
Goodwill	1,133,790	1,097,037	1,095,146
Other Assets	408,104	400,290	418,520
	\$ 5,676,457	\$ 5,171,071	\$ 5,356,591
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities			
Short-term borrowings	\$ 302,641	\$ 138,956	\$ 181,017
Current portion of long-term debt	35,670	33,956	333,665
Accounts payable	395,891	451,900	356,438
Accrued liabilities	511,579	527,331	577,750
Total current liabilities	1,245,781	1,152,143	1,448,870

Long-term Debt	665,475	647,728	527,511
Other Liabilities	642,075	539,661	580,722
Commitments and Contingencies			
Redeemable Preferred Stock		23,326	24,083
Common Stockholders Equity			
Common Stock, stated value \$1; shares authorized, 300,000,000; shares outstanding:			
Sept. 2006	111,208,173;	Dec. 2005	110,107,854;
Sept. 2005	110,886,655		
	111,208	110,108	110,887
Additional paid-in capital	1,407,986	1,277,486	1,261,506
Accumulated other comprehensive income (loss)	(155,956)	(164,802)	(140,607)
Retained earnings	1,759,888	1,585,421	1,543,619
Total common stockholders equity	3,123,126	2,808,213	2,775,405
	\$ 5,676,457	\$ 5,171,071	\$ 5,356,591

See notes to consolidated financial statements.

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

	Nine Months Ended	
	September	
	2006	2005
Operating Activities		
Net income	\$ 424,924	\$ 379,232
Adjustments to reconcile net income to cash provided by operating activities:		
Cumulative effect of a change in accounting policy		11,833
Depreciation	72,190	72,348
Amortization of intangible assets	13,130	12,111
Other amortization	16,352	11,838
Stock-based compensation	39,209	35,794
Pension funding in excess of expense	(42,901)	(24,536)
Other, net	1,700	(6,692)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(408,290)	(199,095)
Inventories	(95,205)	(179,913)
Accounts payable	(66,126)	(16,094)
Accrued liabilities and other	71,959	44,817
Cash provided by operating activities	26,942	141,643
Investing Activities		
Capital expenditures	(79,552)	(75,864)
Business acquisitions, net of cash acquired	(40,378)	(212,286)
Software purchases	(8,609)	(13,008)
Sale of VF Playwear business	4,860	6,667
Other, net	10,001	18,528
Cash used by investing activities	(113,678)	(275,963)
Financing Activities		
Increase in short-term borrowings	154,802	136,464
Payments on long-term debt	(34,519)	(101,189)
Purchase of Common Stock	(118,582)	(175,136)
Cash dividends paid	(154,775)	(91,757)
Proceeds from issuance of Common Stock	79,699	92,751
Tax benefits of stock option exercises	12,063	16,433
Other, net		(181)
Cash used by financing activities	(61,312)	(122,615)

Effect of Foreign Currency Rate Changes on Cash	5,687	(13,023)
Net Change in Cash and Equivalents	(142,361)	(269,958)
Cash and Equivalents Beginning of Year	296,557	485,507
Cash and Equivalents End of Period	\$ 154,196	\$ 215,549

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 consolidated subsidiaries (VF) operate and report using a 52/53 week fiscal year ending on the Saturday closest to December 31 of each year. Similarly, the fiscal third quarter ends on the Saturday closest to September 30. For presentation purposes herein, all references to periods ended September 2006, December 2005 and September 2005 relate to the fiscal periods ended on September 30, 2006, December 31, 2005 and October 1, 2005, 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 accounting principles generally accepted in the United States for complete financial statements. Similarly, the December 2005 consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to make a fair statement of the consolidated financial position, results of operations and cash flows of VF for the interim periods presented. Operating results for the three months and nine months ended September 2006 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 30, 2006. 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 2005 (2005 Form 10-K).

During the fourth quarter of 2005, VF elected to early adopt FASB Statement No. 123 (Revised), *Share-Based Payment*, effective as of the beginning of 2005 using the modified retrospective method. Under this method of adoption, VF restated its 2005 interim financial statements as follows: (i) recorded in the first quarter a noncash charge as the Cumulative Effect of a Change in Accounting Policy for periods prior to January 2005, (ii) restated its operating results, including segment information, for each quarter of 2005 to recognize compensation cost for grants of stock options and other stock-based compensation, (iii) reclassified accrued stock-based compensation from Current Liabilities to Common Stockholders' Equity in the Consolidated Balance Sheets and (iv) reclassified the excess tax benefits from the exercise of stock options from operating activities to financing activities in the Consolidated Statements of Cash Flows.

Beginning in the fourth quarter of 2005, Royalty Income was classified as a separate component of Total Revenues, with related expenses classified in Marketing, Administrative and General Expenses. Prior year amounts have been reclassified to conform with the current year presentation.

Note B Acquisitions

On September 1, 2006, VF acquired a 60% interest in a newly formed joint venture to design, market and distribute VF-branded products in India for a total cost of approximately \$33 million. Prior to the transaction, the joint venture partner marketed under licensee or distributor agreements the *Lee*[®], *Wrangler*[®], *Nautica*[®], *JanSport*[®] and *Kipling*[®] brands. Revenues associated with these brands were approximately \$40 million. The purchase price was allocated based on a preliminary valuation of net tangible and intangible assets associated with the business. Acquired intangible assets totaling \$13.3 million consisted primarily of wholesale customer relationships. The excess purchase price of \$19.7 million was recorded as goodwill and was attributed to expected growth rates and profitability of the acquired business. VF expects to complete the purchase price allocation in the fourth quarter of 2006.

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In addition, during the first nine months of 2006, VF acquired the contract rights of certain licensees and distributors of its branded products for a total cost of \$5.0 million. The excess of the purchase price over net tangible assets acquired was assigned to intangible assets, which are being amortized over periods ranging up to five years. No goodwill was recognized in these acquisitions.

Note C Intangible Assets

	Weighted Average Life *	Gross Carrying Amount	September 2006 Accumulated Amortization	Net Carrying Amount	December 2005 Net Carrying Amount
(Dollars in thousands)					
Amortizable intangible assets:					
License agreements	24 years	\$ 147,644	\$ 25,772	\$ 121,872	\$ 128,791
Customer relationships	21 years	107,299	13,092	94,207	81,849
Trademarks and other	7 years	9,405	2,312	7,093	4,026
Amortizable intangible assets, net				223,172	214,666
Indefinite-lived intangible assets:					
Trademarks and tradenames				538,723	529,647
Intangible assets, net				\$ 761,895	\$ 744,313

* Amortization of license agreements accelerated and straight-line methods; customer relationships accelerated methods; trademarks and other accelerated and straight-line methods.

Amortization expense of intangible assets for the third quarter and first nine months of 2006 was \$4.7 million and \$13.1 million, respectively. Estimated amortization expense for the remainder of 2006 is \$5.7 million and for the years 2007 through 2010 is \$18.6 million, \$15.5 million, \$13.7 million and \$13.0 million, respectively.

Note D Goodwill

(In thousands)	Jeanswear	Outdoor	Intimate Apparel	Imagewear	Sportswear	Total
Balance, December 2005	\$ 193,685	\$ 515,696	\$ 117,526	\$ 56,246	\$ 213,884	\$ 1,097,037
India joint venture	19,687					19,687
Additional purchase price		400				400
Adjustments to purchase price allocation		(1,156)				(1,156)
Currency translation	2,996	14,826				17,822
Balance, September 2006	\$ 216,368	\$ 529,766	\$ 117,526	\$ 56,246	\$ 213,884	\$ 1,133,790

Note E Long-term Debt

During 2005, VF entered into a new international bank credit agreement consisting of (i) a euro-denominated five year revolving credit agreement for a current U.S. dollar equivalent amount of \$223.8 million, (ii) a

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euro-denominated two year term loan for a current U.S. dollar equivalent of \$51.2 million and (iii) a U.S. dollar-denominated two year term loan for \$40.0 million. At the end of September 2006, there was \$191.8 million outstanding under the agreement. While borrowings under the term credit facilities of the international bank credit agreement are short-term notes that can be continued to November 2007, \$44.7 million of these borrowings was classified as Short-term Borrowings because of VF's intent to repay that amount in the next 12 months. In addition, at September 2006, there was \$147.1 million in borrowings under the revolving credit portion of the agreement. These short-term notes can be continued until October 2010. Of this amount, \$127.9 million was classified as Long-term Debt because VF has no intent to pay down that amount in the next year.

Note F Pension Plans

VF's net periodic pension cost contains the following components:

(In thousands)	Three Months Ended September		Nine Months Ended September	
	2006	2005	2006	2005
Service cost – benefits earned during the year	\$ 5,507	\$ 5,135	\$ 16,521	\$ 15,405
Interest cost on projected benefit obligations	16,575	15,338	49,725	46,014
Expected return on plan assets	(18,188)	(15,935)	(54,564)	(47,805)
Amortization of:				
Prior service cost	870	870	2,610	2,610
Actuarial loss	6,855	5,366	20,565	16,098
Net periodic pension cost	\$ 11,619	\$ 10,774	\$ 34,857	\$ 32,322

During the first nine months of 2006, VF made a \$75.0 million discretionary contribution to its qualified pension plan and made contributions totaling \$2.8 million to fund benefit payments for the Supplemental Executive Retirement Plan (SERP). VF currently anticipates making an additional \$1.0 million of contributions to fund benefit payments for the SERP during the remainder of 2006.

Note G Business Segment Information

VF's businesses are grouped into five product categories, and by brands within those product categories, for management and internal financial r