

WEYCO GROUP INC  
Form 10-Q  
August 05, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

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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 0-9068

WEYCO GROUP, INC.  
(Exact name of registrant as specified in its charter)

WISCONSIN  
(State or other jurisdiction of  
incorporation or organization)

39-0702200  
(I.R.S. Employer  
Identification No.)

333 W. Estabrook Boulevard  
P. O. Box 1188  
Milwaukee, Wisconsin 53201  
(Address of principal executive offices)  
(Zip Code)

(414) 908-1600  
(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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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  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

As of August 2, 2010, there were 11,323,216 shares of common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

The consolidated condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

WEYCO GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

	June 30, 2010	December 31, 2009
	(Dollars in thousands)	
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 13,109	\$ 30,000
Marketable securities, at amortized cost	5,529	3,954
Accounts receivable, net	31,518	33,020
Accrued income tax receivable	735	-
Inventories	37,266	40,363
Prepaid expenses and other current assets	3,497	3,922
Total current assets	91,654	111,259
Marketable securities, at amortized cost	59,342	42,823
Deferred income tax benefits	2,509	2,261
Other assets	15,374	13,070
Property, plant and equipment, net	26,011	26,872
Trademark	10,868	10,868
Total assets	\$ 205,758	\$ 207,153
<b>LIABILITIES AND EQUITY:</b>		
Accounts payable	\$ 6,591	\$ 9,202
Dividend payable	1,812	1,693
Accrued liabilities	7,675	7,846
Accrued income taxes	-	1,241
Deferred income tax liabilities	351	295
Total current liabilities	16,429	20,277
Long-term pension liability	19,343	18,533
Common stock	11,353	11,333
Capital in excess of par value	18,242	16,788
Reinvested earnings	147,140	146,241
Accumulated other comprehensive loss	(10,578)	(10,066)
Total Weyco Group, Inc. equity	166,157	164,296
Noncontrolling interest	3,829	4,047
Total equity	169,986	168,343

Total liabilities and equity	\$ 205,758	\$ 207,153
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The accompanying notes to consolidated condensed financial statements (unaudited) are an integral part of these financial statements.

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WEYCO GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (UNAUDITED)

	Three Months Ended June		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Net sales	\$ 48,724	\$ 50,053	\$ 109,762	\$ 108,961
Cost of sales	30,066	31,142	67,696	70,359
Gross earnings	18,658	18,911	42,066	38,602
Selling and administrative expenses	16,972	16,709	34,939	33,066
Earnings from operations	1,686	2,202	7,127	5,536
Interest income	607	566	1,105	1,019
Interest expense	(87)	(2)	(87)	(25)
Other income and (expense), net	(351)	893	(218)	799
Earnings before provision for income taxes	1,855	3,659	7,927	7,329
Provision for income taxes	774	1,165	2,864	2,475
Net earnings	1,081	2,494	5,063	4,854
Net (loss) earnings attributable to noncontrolling interest	(201)	309	(76)	164
Net earnings attributable to Weyco Group, Inc.	\$ 1,282	\$ 2,185	\$ 5,139	\$ 4,690
Weighted average shares outstanding				
Basic	11,326	11,253	11,309	11,266
Diluted	11,533	11,542	11,514	11,513
Earnings per share				
Basic	\$ 0.11	\$ 0.19	\$ 0.45	\$ 0.42
Diluted	\$ 0.11	\$ 0.19	\$ 0.45	\$ 0.41
Cash dividends per share	\$ 0.16	\$ 0.15	\$ 0.31	\$ 0.29

The accompanying notes to consolidated condensed financial statements (unaudited) are an integral part of these financial statements.

WEYCO GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (UNAUDITED)

	2010	2009
	(Dollars in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 5,063	\$ 4,854
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation	1,386	1,435
Amortization	60	47
Net foreign currency transaction losses (gains)	213	(758)
Deferred income taxes	(475)	(212)
Stock-based compensation	569	429
Pension expense	1,624	1,424
Loss on disposal of fixed assets	-	14
Increase in cash surrender value of life insurance	(120)	(114)
Change in operating assets and liabilities -		
Accounts receivable	1,995	423
Inventories	2,843	10,724
Prepays and other current assets	175	1,136
Accounts payable	(2,574)	(1,514)
Accrued liabilities and other	(900)	1,488
Accrued income taxes	(1,972)	1,406
Net cash provided by operating activities	7,887	20,782
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of businesses	(2,509)	(9,320)
Purchase of marketable securities	(21,802)	(405)
Proceeds from maturities of marketable securities	3,648	4,245
Life insurance premiums paid	(155)	(155)
Purchase of property, plant and equipment	(646)	(590)
Net cash used for investing activities	(21,464)	(6,225)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash received from noncontrolling interest	-	1,314
Cash dividends paid	(3,401)	(3,184)
Shares purchased and retired	(753)	(2,440)
Proceeds from stock options exercised	607	520
Net (repayments) borrowings under revolving credit agreement	-	(1,250)
Income tax benefits from share-based compensation	331	134
Net cash used for financing activities	(3,216)	(4,906)
Effect of exchange rate changes on cash	(98)	-
Net (decrease) increase in cash and cash equivalents	(16,891)	9,651
CASH AND CASH EQUIVALENTS at beginning of period	\$ 30,000	\$ 11,486

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CASH AND CASH EQUIVALENTS at end of period	\$	13,109	\$	21,137
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SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid, net of refunds	\$	5,352	\$	1,183
Interest paid	\$	82	\$	28

The accompanying notes to consolidated condensed financial statements (unaudited) are an integral part of these financial statements.

## NOTES:

## 1. Financial Statements

In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results for the full year.

## 2. Acquisition

On April 28, 2010, the Company acquired certain assets, including the Umi brand name, intellectual property and accounts receivable, from Umi LLC, a children's footwear company, for an aggregate price of approximately \$2.5 million. The acquisition has been accounted for in these financial statements as a business combination under Accounting Standards Codification (ASC) 805, Business Combinations (ASC 805). The Company has preliminarily allocated the purchase price to accounts receivable and other assets. The operating results related to the Umi acquisition have been included in the Company's consolidated financial statements from the date of acquisition. The Umi operating results are included in the Company's North American wholesale operations, and the current quarter results primarily relate to operating expenses as sales of Umi in the current quarter were minimal due to the seasonality of the business. Shipments of Umi autumn/winter product will begin in the third quarter of 2010. Additional disclosures required by ASC 805 have not been provided as the acquisition was not material to the Company's financial statements.

## 3. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
(In thousands, except per share amounts)				
<b>Numerator:</b>				
Net earnings attributable to Weyco Group, Inc.	\$ 1,282	\$ 2,185	\$ 5,139	\$ 4,690
<b>Denominator:</b>				
Basic weighted average shares outstanding	11,326	11,253	11,309	11,266
<b>Effect of dilutive securities:</b>				
Employee stock-based awards	207	289	205	247
Diluted weighted average shares outstanding	11,533	11,542	11,514	11,513
Basic earnings per share	\$ 0.11	\$ 0.19	\$ 0.45	\$ 0.42
Diluted earnings per share	\$ 0.11	\$ 0.19	\$ 0.45	\$ 0.41

Diluted weighted average shares outstanding for the three and six months ended June 30, 2010 excluded outstanding options to purchase 284,050 shares of common stock at a weighted average price of \$28.46, as they were antidilutive.

Diluted weighted average shares outstanding for the three and six months ended June 30, 2009 excluded outstanding options to purchase 247,900 shares of common stock at a weighted average price of \$29.16, as they were antidilutive.





## 4. Segment Information

The Company has two reportable segments: North American wholesale operations (“wholesale”) and North American retail operations (“retail”). The chief operating decision maker, the Company’s Chief Executive Officer, evaluates the performance of its segments based on earnings from operations and accordingly, interest income, interest expense and other income and expense are not allocated to the segments. The “other” category in the table below includes the Company’s wholesale and retail operations in Australia, South Africa, Asia Pacific and Europe, which do not meet the criteria for separate reportable segment classification. Summarized segment data for the three and six months ended June 30, 2010 and 2009 was:

## Three Months Ended

June 30,	Wholesale	Retail	Other	Total
	(Dollars in thousands)			
<b>2010</b>				
Product sales	\$ 34,808	\$ 5,301	\$ 8,145	\$ 48,254
Licensing revenues	470	-	-	470
Net sales	\$ 35,278	\$ 5,301	\$ 8,145	\$ 48,724
Earnings from operations	\$ 1,750	\$ (160)	\$ 96	\$ 1,686

## 2009

Product sales	\$ 35,373	\$ 5,431	\$ 8,697	\$ 49,501
Licensing revenues	552	-	-	552
Net sales	\$ 35,925	\$ 5,431	\$ 8,697	\$ 50,053
Earnings from operations	\$ 1,935	\$ (138)	\$ 405	\$ 2,202

## Six Months Ended

June 30,	Wholesale	Retail	Other	Total
	(Dollars in thousands)			
<b>2010</b>				
Product sales	\$ 78,896	\$ 10,575	\$ 19,241	\$ 108,712
Licensing revenues	1,050	-	-	1,050
Net sales	\$ 79,946	\$ 10,575	\$ 19,241	\$ 109,762
Earnings from operations	\$ 6,142	\$ (349)	\$ 1,334	\$ 7,127

## 2009

Product sales	\$ 81,006	\$ 10,671	\$ 15,983	\$ 107,660
Licensing revenues	1,301	-	-	1,301
Net sales	\$ 82,307	\$ 10,671	\$ 15,983	\$ 108,961
Earnings from operations	\$ 5,229	\$ (411)	\$ 718	\$ 5,536

## 5. Investments

As noted in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, all of the Company’s investments are classified as held-to-maturity securities and are reported at amortized cost pursuant to ASC 320, Investments – Debt and Equity Securities, as the Company has the intent and ability to hold all security investments to maturity.



The amortized cost of all marketable securities as of June 30, 2010 as reported in the Consolidated Condensed Balance Sheets was \$64.9 million. The estimated fair market value of those marketable securities as of June 30, 2010 was \$66.3 million. The unrealized gains and losses on marketable securities as of June 30, 2010, were \$1.8 million and \$415,000, respectively. The estimated market values provided are level 2 valuations as defined by ASC 820, Fair Value Measurements and Disclosures. The Company has reviewed its portfolio of marketable securities as of June 30, 2010 and has determined that no other-than-temporary market value impairments exist.

#### 6. Employee Retirement Plans

The components of the Company's net pension expense were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010 (Dollars in thousands)	2009 (Dollars in thousands)	2010 (Dollars in thousands)	2009 (Dollars in thousands)
Benefits earned during the period	\$ 300	\$ 238	\$ 585	\$ 476
Interest cost on projected benefit obligation	612	536	1,224	1,072
Expected return on plan assets	(463)	(383)	(910)	(766)
Net amortization and deferral	362	321	725	642
Net pension expense	\$ 811	\$ 712	\$ 1,624	\$ 1,424

On July 1, 2010, the Company made a \$1.5 million contribution to its defined benefit pension plan.

#### 7. Share-Based Compensation Plans

During the three and six months ended June 30, 2010, the Company recognized approximately \$285,000 and \$569,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in the years 2006 through 2009. During the three and six months ended June 30, 2009, the Company recognized approximately \$210,000 and \$429,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in the years 2006 through 2008.

The following table summarizes the stock option activity under the Company's plans for the six-month period ended June 30, 2010:

	Shares	Weighted Average Exercise Price	Wtd. Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Outstanding at December 31, 2009	1,195,276	\$ 18.68		
Exercised	(52,884)	\$ 11.47		
Forfeited	350	\$ 25.50		
Outstanding at June 30, 2010	1,142,742	\$ 19.01	3.00	\$ 5,974,600
Exercisable at June 30, 2010	792,917	\$ 15.96	2.67	\$ 5,974,600

\* The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between the market value at June 30, 2010 of \$22.78 and the exercise price.



The following table summarizes stock option activity for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Total intrinsic value of stock options exercised	\$ 453	\$ 920	\$ 849	\$ 930
Cash received from stock option exercises	\$ 455	\$ 508	\$ 607	\$ 520
Income tax benefit from the exercise of stock options	\$ 177	\$ 359	\$ 331	\$ 363

The following table summarizes the Company's restricted stock award activity for the six-month period ended June 30, 2010:

	Shares of Restricted Stock	Average Grant Date Fair Value	Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Non-vested - December 31, 2009	46,670	\$ 25.56		
Issued	-	-		
Vested	-	-		
Forfeited	-	-		
Non-vested June 30, 2010	46,670	\$ 25.56	2.08	\$ 783,000

\* The aggregate intrinsic value of non-vested restricted stock is the number of shares outstanding valued at the June 30, 2010 market value of \$22.78.

#### 8. Short-Term Borrowings

As of June 30, 2010, the Company had a total of \$50 million available under its borrowing facility, under which there were no outstanding borrowings. The facility includes one financial covenant that specifies a minimum level of net worth. The Company was in compliance with the covenant at June 30, 2010. The facility expired on April 30, 2010, and was renewed for another term that expires April 30, 2011.

#### 9. Comprehensive Income

Comprehensive income for the three and six months ended June 30, 2010 and 2009 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Net earnings	\$ 1,081	\$ 2,494	\$ 5,063	\$ 4,854
Foreign currency translation adjustments	(713)	902	(954)	727
Pension liability, net of tax	221	196	442	392
Total comprehensive income	\$ 589	\$ 3,592	\$ 4,551	\$ 5,973

The components of accumulated other comprehensive loss as recorded on the accompanying balance sheets were as follows:

	June 30, 2010	December 31, 2009
	(Dollars in thousands)	
Foreign currency translation adjustments	\$ 167	\$ 1,121
Pension liability, net of tax	(10,745)	(11,187)
Total accumulated other comprehensive loss	\$ (10,578)	\$ (10,066)

10. Equity

A reconciliation of the Company's equity for the six months ended June 30, 2010 follows:

	Common Stock	Capital in Excess of Par Value	Reinvested Earnings	Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interest
	(Dollars in thousands)				
Balance, December 31, 2009	\$ 11,333	\$ 16,788	\$ 146,241	\$ (10,066)	\$ 4,047
Net earnings			5,139		(76)
Foreign currency translation adjustments				(954)	(142)
Pension liability adjustment, net of tax				442	
Cash dividends declared			(3,520)		
Stock options exercised	53	554			
Stock-based compensation expense		569			
Income tax benefit from stock-based compensation		331			
Shares purchased and retired	(33)		(720)		
Balance, June 30, 2010	\$ 11,353	\$ 18,242	\$ 147,140	\$ (10,578)	\$ 3,829

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

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the Company's outlook for the future. These statements represent the Company's reasonable judgment with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially. The reader is cautioned that these forward-looking statements are subject to a number of risks, uncertainties or other factors that may cause (and in some cases have caused) actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties include, but are not limited to, the risk factors described under Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

GENERAL

The Company is a distributor of men's casual, dress and fashion shoes. The principal brands of shoes sold by the Company are "Florsheim," "Nunn Bush," "Stacy Adams" and "Umi." Inventory is purchased from third-party overseas manufacturers. The majority of foreign-sourced purchases are denominated in U.S. dollars. The Company has two reportable segments, North American wholesale operations ("wholesale") and North American retail operations ("retail"). In the wholesale segment, the Company's products are sold to shoe specialty stores, department stores and clothing retailers, primarily in the United States and Canada. The Company also has licensing agreements with third parties who sell its branded apparel, accessories and specialty footwear in the United States, as well as its footwear in Mexico and certain markets overseas. Licensing revenues are included in the Company's wholesale segment. The Company's retail segment consisted of 35 Company-owned retail stores in the United States and an Internet business as of June 30, 2010. Sales in retail outlets are made directly to consumers by Company employees. The Company's "other" operations include the Company's wholesale and retail operations in Australia, South Africa, Asia Pacific and Europe. The majority of the Company's operations are in the United States, and its results are primarily affected by the economic conditions and the retail environment in the United States.

On April 28, 2010, the Company acquired certain assets, including the Umi brand name, intellectual property and accounts receivable, from Umi LLC, a children's footwear company, for an aggregate price of approximately \$2.5 million. The Company has preliminarily allocated the purchase price to accounts receivable and other assets. The operating results related to the Umi acquisition have been included in the Company's consolidated financial statements from the date of acquisition. The Umi operating results are included in the Company's North American wholesale operations, and the current quarter results primarily relate to operating expenses as sales of Umi in the current quarter were minimal due to the seasonality of the business. Shipments of Umi autumn/winter product will begin in the third quarter of 2010.

On January 23, 2009, the Company acquired a majority interest in a new subsidiary, Florsheim Australia. Accordingly, the Company's year to date results at June 30, 2010 included Florsheim Australia's operations for the entire first six months, while the year to date results at June 30, 2009 only included the consolidated financial statements of Florsheim Australia from January 23 through June 30, 2009.



## CONSOLIDATED OVERVIEW

### Second Quarter Highlights

Consolidated net sales for the second quarter of 2010 were \$48.7 million, down 3% from last year's second quarter net sales of \$50.1 million. The Company's consolidated earnings from operations for this year's second quarter were \$1.7 million, down from \$2.2 million last year.

Consolidated earnings before tax were \$1.9 million in the second quarter of 2010 compared with \$3.7 million for the same period in 2009. This decrease was caused by the lower earnings from operations and a net decrease in other income and expense this quarter compared with last year. This year's other income and expense included foreign exchange transaction losses of \$344,000 on intercompany loans between the Company's U.S. business and Florsheim Australia. Last year's other income and expense included foreign exchange transaction gains of \$870,000 on the intercompany loans.

The Company's net earnings this quarter were \$1.3 million, down from \$2.2 million in the same quarter last year. Diluted earnings per share for the three months ended June 30, 2010 were \$.11 per share compared with \$.19 per share in last year's second quarter.

### Year to Date Highlights

Consolidated net sales for the first half of 2010 were \$109.8 million compared with \$109.0 million last year. The Company's consolidated earnings from operations for the first six months of 2010 were \$7.1 million, up from \$5.5 million last year. The Company achieved higher gross earnings from operations this year compared with last year primarily as a result of higher gross margins in its wholesale segment.

The Company's consolidated year to date earnings before tax at June 30, 2010 were \$7.9 million compared with \$7.3 million at June 30, 2009. This year's earnings before tax included year to date foreign exchange transaction losses of \$217,000 on intercompany loans between the Company's U.S. business and Florsheim Australia while last year's earnings before tax included foreign exchange transaction gains of \$758,000 on these same loans.

Consolidated net earnings for the six months ended June 30, 2010 were \$5.1 million as compared with last year's \$4.7 million. Diluted earnings per share to-date through June 30, 2010 were \$.45, up from \$.41 for the same period in 2009.

### Financial Position Highlights

The Company's cash and marketable securities totaled \$78.0 million at June 30, 2010 compared with \$76.8 million at December 31, 2009. The Company had no outstanding debt at June 30, 2010.

## SEGMENT ANALYSIS

Net sales and earnings from operations for the Company's segments in the three and six months ended June 30, 2010 and 2009 were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	% Change	2010	2009	% Change
	(Dollars in thousands)			(Dollars in thousands)		
<b>Net Sales</b>						
North American Wholesale	\$ 35,278	\$ 35,925	-2%	\$ 79,946	\$ 82,307	-3%
North American Retail	5,301	5,431	-2%	10,575	10,671	-1%
Other	8,145	8,697	-6%	19,241	15,983	20%
Total	\$ 48,724	\$ 50,053	-3%	\$ 109,762	\$ 108,961	1%

**Earnings from Operations**

North American Wholesale