

WEYCO GROUP INC  
Form 10-Q  
August 07, 2014

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, 2014**

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)

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WISCONSIN

39-0702200

(State or other jurisdiction of incorporation or organization) (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 (Section 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 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 1, 2014, there were 10,822,329 shares of common stock outstanding.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

The consolidated condensed financial statements included herein have been prepared by Weyco Group, Inc. (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. These financial statements should 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, 2014	December 31, 2013
	(Dollars in thousands)	
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 11,222	\$ 15,969
Marketable securities, at amortized cost	4,602	5,196
Accounts receivable, net	41,115	48,530
Accrued income tax receivable	3,016	1,055
Inventories	63,392	63,196
Prepaid expenses and other current assets	3,757	6,136
Total current assets	127,104	140,082
Marketable securities, at amortized cost	29,685	25,024
Property, plant and equipment, net	34,239	35,112
Goodwill	11,112	11,112
Trademarks	34,748	34,748
Other assets	21,407	21,455
Total assets	\$ 258,295	\$ 267,533
<b>LIABILITIES AND EQUITY:</b>		
Short-term borrowings	\$ 10,820	\$ 12,000
Accounts payable	6,410	13,956
Dividend payable	-	1,949
Accrued liabilities	9,599	10,902
Deferred income tax liabilities	1,371	849
Total current liabilities	28,200	39,656

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Deferred income tax liabilities	1,953	1,993
Long-term pension liability	21,179	21,901
Other long-term liabilities	7,325	6,991
Equity:		
Common stock	10,860	10,876
Capital in excess of par value	33,018	31,729
Reinvested earnings	157,171	156,983
Accumulated other comprehensive loss	(8,814 )	(9,422 )
Total Weyco Group, Inc. equity	192,235	190,166
Noncontrolling interest	7,403	6,826
Total equity	199,638	196,992
Total liabilities and equity	\$258,295	\$ 267,533

*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 EARNINGS AND COMPREHENSIVE INCOME  
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Net sales	\$62,863	\$65,041	\$ 137,792	\$ 138,631
Cost of sales	38,646	40,343	86,211	86,234
Gross earnings	24,217	24,698	51,581	52,397
Selling and administrative expenses	20,830	21,018	43,324	44,029
Earnings from operations	3,387	3,680	8,257	8,368
Interest income	306	386	595	798
Interest expense	(29 )	(112 )	(71 )	(239 )
Other income (expense), net	75	(538 )	(40 )	(627 )
Earnings before provision for income taxes	3,739	3,416	8,741	8,300
Provision for income taxes	1,238	1,151	2,990	2,910
Net earnings	2,501	2,265	5,751	5,390
Net earnings (loss) attributable to noncontrolling interest	294	60	339	(15 )
Net earnings attributable to Weyco Group, Inc.	\$2,207	\$2,205	\$ 5,412	\$ 5,405
Weighted average shares outstanding				
Basic	10,822	10,763	10,827	10,762
Diluted	10,907	10,813	10,919	10,824
Earnings per share				
Basic	\$0.20	\$0.20	\$ 0.50	\$ 0.50
Diluted	\$0.20	\$0.20	\$ 0.50	\$ 0.50
Cash dividends declared (per share)	\$0.19	\$0.18	\$ 0.37	\$ 0.18
Comprehensive income	\$3,143	\$982	\$ 6,597	\$ 3,864
Comprehensive income (loss) attributable to noncontrolling interest	370	(533 )	577	(680 )

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Comprehensive income attributable to Weyco Group, Inc.	\$2,773	\$1,515	\$ 6,020	\$ 4,544
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*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 (UNAUDITED)**

	Six Months Ended June 30,	
	2014	2013
	(Dollars in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 5,751	\$ 5,390
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation	1,888	1,985
Amortization	151	171
Bad debt expense	152	87
Deferred income taxes	344	(727 )
Net foreign currency transaction (gains) losses	(4 )	580
Stock-based compensation	676	633
Pension contribution	(1,300 )	(110 )
Pension expense	1,106	1,796
Increase in cash surrender value of life insurance	(115 )	(115 )
Changes in operating assets and liabilities -		
Accounts receivable	7,236	6,278
Inventories	(143 )	12,960
Prepaid expenses and other assets	2,514	99
Accounts payable	(7,541 )	(6,628 )
Accrued liabilities and other	(998 )	(5,004 )
Accrued income taxes	(1,953 )	(1,493 )
Net cash provided by operating activities	7,764	15,902
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities	(7,427 )	(12 )
Proceeds from maturities of marketable securities	3,382	6,308
Life insurance premiums paid	(155 )	(155 )
Investment in real estate	-	(3,206 )
Purchases of property, plant and equipment	(725 )	(1,125 )
Net cash (used for) provided by investing activities	(4,925 )	1,810
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividends paid	(5,954 )	-
Shares purchased and retired	(1,249 )	(4,623 )
Proceeds from stock options exercised	608	2,828
Payment of contingent consideration	-	(1,270 )
Proceeds from bank borrowings	33,999	2,000
Repayments of bank borrowings	(35,179 )	(27,000 )
Income tax benefits from stock-based compensation	37	455
Net cash used for financing activities	(7,738 )	(27,610 )

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Effect of exchange rate changes on cash and cash equivalents	152	(342 )
Net decrease in cash and cash equivalents	\$ (4,747 )	\$ (10,240 )
CASH AND CASH EQUIVALENTS at beginning of period	15,969	17,288
CASH AND CASH EQUIVALENTS at end of period	\$ 11,222	\$ 7,048
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid, net of refunds	\$ 4,498	\$ 4,527
Interest paid	\$ 46	\$ 206

*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 Company's 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, 2014, are not necessarily indicative of the results for the full year.

**2. 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,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Numerator:				
Net earnings attributable to Weyco Group, Inc.	\$ 2,207	\$ 2,205	\$ 5,412	\$ 5,405
Denominator:				
Basic weighted average shares outstanding	10,822	10,763	10,827	10,762
Effect of dilutive securities:				
Employee stock-based awards	85	50	92	62
Diluted weighted average shares outstanding	10,907	10,813	10,919	10,824
Basic earnings per share	\$ 0.20	\$ 0.20	\$ 0.50	\$ 0.50
Diluted earnings per share	\$ 0.20	\$ 0.20	\$ 0.50	\$ 0.50

Diluted weighted average shares outstanding for the three and six months ended June 30, 2014, exclude anti-dilutive stock options totaling 330,200 shares of common stock at a weighted average price of \$28.50. Diluted weighted average shares outstanding for the three and six months ended June 30, 2013, exclude anti-dilutive stock options totaling 773,150 shares of common stock at a weighted average price of \$24.99.

**3. Investments**

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As noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, all of the Company's municipal bond investments are classified as held-to-maturity securities and reported at amortized cost pursuant to Accounting Standards Codification ("ASC") 320, *Investments – Debt and Equity Securities* ("ASC 320") as the Company has the intent and ability to hold all security investments to maturity.

Below is a summary of the amortized cost and estimated market values of the Company's investment securities as of June 30, 2014, and December 31, 2013.

	June 30, 2014		December 31, 2013	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	(Dollars in thousands)			
Municipal bonds:				
Current	\$4,602	\$4,635	\$5,196	\$5,264
Due from one through five years	17,228	18,158	17,636	18,527
Due from six through ten years	11,341	11,751	7,388	7,777
Due from eleven through twenty years	1,116	1,121	-	-
Total	\$34,287	\$35,665	\$30,220	\$31,568

The unrealized gains and losses on investment securities at June 30, 2014, and at December 31, 2013, were as follows:

	June 30, 2014		December 31, 2013	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
	(Dollars in thousands)			
Municipal bonds	\$ 1,385	\$ (7 )	\$ 1,348	\$ -

The estimated market values provided are level 2 valuations as defined by ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). The Company reviewed its portfolio of investments as of June 30, 2014, and determined that no other-than-temporary market value impairment exists.

#### 4. Intangible Assets

The Company's indefinite-lived and amortizable intangible assets as recorded in the Consolidated Condensed Balance Sheets (Unaudited) consisted of the following as of June 30, 2014:

	Weighted Average Life (Yrs)	June 30, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net
(Dollars in thousands)				
Indefinite-lived intangible assets:				
Goodwill		\$ 11,112	\$ -	\$ 11,112
Trademarks				