WEYCO GROUP INC
Form 10-Q
May 07, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

Or

o 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	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 x 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 (§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 x 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 x

As of April 30, 2010, there were 11,381,954 shares of common stock outstanding.

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 S UBS IDIARIES
CONS OLIDATED CONDENS ED BALANCE SHEETS (UNAUDITED)

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
ASSETS :		
Cash and cash equivalents	$ 25,154	$ 30,000
Marketable securities, at amortized cost	4,255	3,954
Accounts receivable, net	42,119	33,020
Inventories	31,969	40,363
Prepaid expenses and other current assets	3,395	3,922
Total current assets	106,892	111,259
M arketable securities, at amortized cost	47,568	42,823
Deferred income tax benefits	2,128	2,261
Other assets	13,603	13,070
Property, plant and equipment, net	26,601	26,872
Trademark	10,868	10,868
Total assets	$ 207,660	$ 207,153
LIABILITIES AND EQUITY:		
Accounts payable	$ 5,939	$ 9,202
Dividend payable	1,694	1,693
Accrued liabilities	7,684	7,846
Accrued income taxes	1,877	1,241
Deferred income tax liabilities	369	295
Total current liabilities	17,563	20,277
Long-term pension liability	18,938	18,533
Common stock	11,342	11,333
Capital in excess of par value	17,366	16,788
Reinvested earnings	148,311	146,241
Accumulated other comprehensive loss	(10,086)	(10,066)
Total Weyco Group, Inc. equity	166,933	164,296
Noncontrolling interest	4,226	4,047
Total equity	171,159	168,343

Total liabilities and equity	$	207,660	$	207,153

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

1

WEYCO GROUP, INC. AND S UBSIDIARIES
CONS OLIDATED CONDENS ED S TATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended March 31,	
	2010	2009
	(In thousands, except per share amounts)	
Net sales	$ 61,039	$ 58,908
Cost of sales	37,630	39,217
Gross earnings	23,409	19,691
Selling and administrative expenses	17,968	16,357
Earnings from operations	5,441	3,334
Interest income	498	452
Interest expense	(1)	(23)
Other income and expense, net	133	(94)
Earnings before provision for income taxes	6,071	3,669
Provision for income taxes	2,090	1,310
Net earnings	3,981	2,359
Net earnings (loss) attributable to noncontrolling interest	124	(145)
Net earnings attributable to Weyco Group, Inc.	$ 3,857	$ 2,504
Weighted average shares outstanding		
Basic	11,291	11,279
Diluted	11,494	11,483
Earnings per share		
Basic	$ 0.34	$ 0.22
Diluted	$ 0.34	$ 0.22
Cash dividends per share	$ 0.15	$ 0.14

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)

	Three Months Ended March 31, 2010	2009
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 3,981	$ 2,359
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation	704	707
Amortization	22	27
Deferred income taxes	66	(174)
Net foreign currency transaction (gains) losses	(135)	-
Stock-based compensation	285	219
Pension expense	813	712
Increase in cash surrender value of life insurance	(138)	(135)
Changes in operating assets and liabilities -		
Accounts receivable	(8,989)	(7,484)
Inventories	8,578	11,866
Prepaids and other current assets	206	1,040
Accounts payable	(3,290)	(3,689)
Accrued liabilities and other	(732)	(784)
Accrued income taxes	632	1,376
Net cash provided by operating activities	2,003	6,040
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses	-	(9,320)
Purchases of marketable securities	(6,448)	(65)
Proceeds from maturities of marketable securities	1,380	2,135
Purchases of property, plant and equipment	(385)	(383)
Net cash used for investing activities	(5,453)	(7,633)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received from noncontrolling interest	-	1,314
Cash dividends paid	(1,700)	(1,589)
Shares purchased and retired	(90)	(1,271)
Proceeds from stock options exercised	152	12
Net borrowings under revolving credit agreement	-	3,425
Income tax benefits from share-based compensation	154	4
Net cash (used for) provided by financing activities	(1,484)	1,895
Effect of exchange rate changes on cash	88	-
Net (decrease) increase in cash and cash equivalents	(4,846)	302
CASH AND CASH EQUIVALENTS at beginning of period	$ 30,000	$ 11,486
CASH AND CASH EQUIVALENTS at end of period	$ 25,154	$ 11,788

SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid, net of refunds	$	1,903	$	124
Interest paid	$	-	$	19

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 month period 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 March 31, 2010	2009
	(In thousands, except per share amounts)	
Numerator:		
Net Earnings	$ 3,857	$ 2,504
Denominator:		
Basic weighted average shares outstanding	11,291	11,279
Effect of dilutive securities:		
Employee stock-based awards	203	204
Diluted weighted average shares outstanding	11,494	11,483
Basic earnings per share	$ 0.34	$ 0.22
Diluted earnings per share	$ 0.34	$ 0.22

Diluted weighted average shares outstanding for the three months ended March 31, 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 months ended March 31, 2009 excluded outstanding options to purchase 247,900 shares of common stock at a weighted average price of $29.16, as they were antidilutive.

3. 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 reported at amortized cost pursuant to Accounting Standards Codification (ASC) No. 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 March 31, 2010 as reported in the Consolidated Condensed Balance Sheets was $51.8 million. The estimated fair market value of those marketable securities as of March 31, 2010 was $53.7 million. The unrealized gains and losses on marketable securities as of March 31, 2010, were $2.0 million and $71,000, respectively. The estimated market values provided are level 2 valuations as defined by ASC 820, Fair Value Measurement and Disclosures. The Company has reviewed its portfolio of marketable securities as of March 31, 2010 and has determined that no other-than-temporary market value impairment exists.

4

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 or 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 months ended March 31, 2010 and 2009 was:

Three Months Ended March 31,	Wholesale	Retail	Other	Total
		(Dollars in thousands)		
2010				
Product sales	$ 44,088	$ 5,275	$ 11,096	$ 60,459
Licensing revenues	580	-	-	580
Net sales	$ 44,668	$ 5,275	$ 11,096	$ 61,039
Earnings from operations	$ 4,392	$ (188)	$ 1,237	$ 5,441
2009				
Product sales	$ 45,634	$ 5,239	$ 7,286	$ 58,159
Licensing revenues	749	-	-	749
Net sales	$ 46,383	$ 5,239	$ 7,286	$ 58,908
Earnings from operations	$ 3,294	$ (273)	$ 313	$ 3,334

5. Employee Retirement Plans

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

	Three Months Ended March 31, 2010	2009
	(Dollars in thousands)	
Benefits earned during the period	$ 285	$ 238
Interest cost on projected benefit obligation	612	536
Expected return on plan assets	(447)	(383)
Net amortization and deferral	363	321
Net pension expense	$ 813	$ 712

6. Stock-Based Compensation Plans

During the three months ended March 31, 2010, the Company recognized approximately $285,000 of compensation expense associated with stock option and restricted stock awards granted in the years 2006 through 2009. During the three months ended March 31, 2009, the Company recognized approximately $219,000 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 three month period ended March 31, 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	(12,800)	$ 11.84		
Forefeited	(350)	$ 25.50		
Outstanding at March 31, 2010	1,182,126	$ 18.75	3.19	$ 7,040,004
Exercisable at March 31, 2010	833,001	$ 15.74	2.87	$ 6,960,497

*The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between the market value at March 31, 2010 of $23.52 and the exercise price.

The following table summarizes stock option activity for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31, 2010	2009
	(Dollars in thousands)	
Total intrinsic value of stock options exercised	$ 395	$ 10
Cash received from stock option exercises	$ 152	$ 12
Income tax benefit from the exercise of stock options	$ 154	$ 4

The following table summarizes the Company's restricted stock award activity for the three months ended March 31, 2010:

	Shares of Restricted Stock	Weighted Average Grant Date Fair Value	Wtd. Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Non-vested - December 31, 2009	46,670	$ 25.56		
Issued	-	-		
Vested	-	-		
Forfeited	-	-		
Non-vested March 31, 2010	46,670	$ 25.56	2.33	$ 808,382

* The aggregate intrinsic value of non-vested restricted stock is the number of shares outstanding valued at the March 31, 2010 market value of $23.52.

7. Short-Term Borrowings

At March 31, 2010, the Company had a total of $50.0 million available under its borrowing facility, and no outstanding borrowings. This facility includes one financial covenant that specifies a minimum level of net worth. The Company was in compliance with the covenant at March 31, 2010. The facility expired on April 30, 2010, and was renewed for another term that expires April 30, 2011.

8. Comprehensive Income

Comprehensive income for the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended March 31, 2010	2009
	(Dollars in thousands)	
Net earnings	$ 3,981	$ 2,359
Foreign currency translation adjustments	(241)	(175)
Pension liability, net of tax	221	196
Total comprehensive income	$ 3,961	$ 2,380

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

	March 31, 2010	December 31, 2009
	(Dollars in thousands)	
Foreign currency translation adjustments	$ 880	$ 1,121
Pension liability, net of tax	(10,966)	(11,187)
Total accumulated other comprehensive loss	$ (10,086)	$ (10,066)

9. Equity

A reconciliation of the Company's equity for the three months ended March 31, 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			3,857		124
Foreign currency translation adjustments				(241)	55
Pension liability adjustment, net of tax				221	
Cash dividends declared			(1,701)		
Stock options exercised	13	139			
Stock-based compensation expense		285			
Income tax benefit from stock options exercised		154			
Shares purchased and retired	(4)		(86)		

Balance, March 31, 2010	$	11,342	$	17,366	$	148,311	$	(10,086)	$	4,226

10. Subsequent Event

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. Following the transaction, Umi, LLC and its subsidiaries will cease using the Umi name.

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" and "Stacy Adams." 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 36 Company-owned retail stores in the United States and an Internet business as of March 31, 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 January 23, 2009, the Company acquired a majority interest in a new subsidiary, Florsheim Australia. Accordingly, the Company's first quarter 2010 results included Florsheim Australia's operations for the entire first quarter, while 2009 only included the consolidated financial statements of Florsheim Australia from January 23 through March 31, 2009.

CONSOLIDATED OVERVIEW

Consolidated net sales for the first quarter of 2010 reached $61.0 million, an increase of 4% above last year's first quarter net sales of $58.9 million. Consolidated operating earnings for the first quarter of 2010 were $5.4 million, up from $3.3 million last year. The Company's net earnings for the first three months of 2010 were $3.9 million, up from $2.5 million in the first quarter of 2009. Diluted earnings per share this quarter rose to $.34 per share compared with $.22 per share in last year's first quarter.

Wholesale segment net sales were down slightly in the first quarter this year compared with last year and retail segment net sales were flat with last year. Net sales of the Company's other operations, which include the wholesale and retail sales of Florsheim Australia and Florsheim Europe were up $3.8 million this year, as this year's first quarter net sales included three full months of Florsheim Australia's net sales compared to last year's first quarter which included only January 23 through March 31, 2009. The 2010 net sales of Florsheim Australia and Florsheim Europe also benefited from foreign exchange rate changes.

The Company achieved higher gross earnings from operations this quarter compared with last year's first quarter primarily as a result of higher gross margins in its wholesale segment. The increase in operating earnings also reflects higher earnings at Florsheim Australia which primarily resulted from the additional 23 days of operations this year. Also, Florsheim Australia's first quarter 2009 earnings from operations were reduced by approximately $370,000 of acquisition costs.

SEGMENT ANALYSIS

Net sales and earnings from operations for the Company's segments in the three months ended March 31, 2010 and 2009 were as follows:

	Three Months Ended March 31,		
	2010	2009	% Change
	(Dollars in thousands)		
Net Sales			
North American Wholesale	$ 44,668		