

WEYCO GROUP INC
Form 10-Q
November 07, 2013

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 September 30, 2013

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 (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

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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 October 31, 2013, there were 10,838,791 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. It is suggested that these financial statements and notes 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)

	September 30, 2013	December 31, 2012
	(Dollars in thousands)	
ASSETS:		
Cash and cash equivalents	\$ 9,750	\$ 17,288
Marketable securities, at amortized cost	5,875	8,004
Accounts receivable, net	62,189	49,048
Accrued income tax receivable	-	1,136
Inventories	52,612	65,366
Deferred income tax benefits	316	649
Prepaid expenses and other current assets	2,885	4,953
Total current assets	133,627	146,444
Marketable securities, at amortized cost	28,285	36,216
Deferred income tax benefits	1,571	792
Property, plant and equipment, net	35,579	37,218
Goodwill	11,112	11,112
Trademarks	34,748	34,748
Other assets	20,973	18,791
Total assets	\$ 265,895	\$ 285,321
LIABILITIES AND EQUITY:		
Short-term borrowings	\$ 25,000	\$ 45,000
Accounts payable	6,682	11,133
Accrued liabilities	11,617	13,888
Accrued income tax payable	434	-
Total current liabilities	43,733	70,021
Long-term pension liability	27,486	27,530
Other long-term liabilities	6,792	6,381
Equity:		
Common stock	10,837	10,831
Capital in excess of par value	31,003	26,184
Reinvested earnings	152,137	149,664
Accumulated other comprehensive loss	(12,695)	(12,514)
Total Weyco Group, Inc. equity	181,282	174,165

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Noncontrolling interest	6,602	7,224
Total equity	187,884	181,389
Total liabilities and equity	\$ 265,895	\$ 285,321

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Net sales	\$ 83,108	\$ 79,473	\$ 221,739	\$ 215,120
Cost of sales	51,529	49,027	137,763	133,765
Gross earnings	31,579	30,446	83,976	81,355
Selling and administrative expenses	22,993	22,338	67,022	64,012
Earnings from operations	8,586	8,108	16,954	17,343
Interest income	346	438	1,144	1,404
Interest expense	(75)	(143)	(314)	(388)
Other income and expense, net	(123)	10	(750)	(55)
Earnings before provision for income taxes	8,734	8,413	17,034	18,304
Provision for income taxes	3,133	2,961	6,043	6,245
Net earnings	5,601	5,452	10,991	12,059
Net earnings attributable to noncontrolling interest	209	260	194	779
Net earnings attributable to Weyco Group, Inc.	\$ 5,392	\$ 5,192	\$ 10,797	\$ 11,280
Weighted average shares outstanding				
Basic	10,786	10,827	10,770	10,860
Diluted	10,873	10,911	10,840	10,974
Earnings per share				
Basic	\$ 0.50	\$ 0.48	\$ 1.00	\$ 1.04
Diluted	\$ 0.50	\$ 0.48	\$ 1.00	\$ 1.03
Cash dividends declared (per share)	\$ 0.18	\$ 0.17	\$ 0.36	\$ 0.50
Comprehensive income	\$ 6,340	\$ 6,058	\$ 10,204	\$ 13,036
Comprehensive income (loss) attributable to noncontrolling interest	268	323	(412)	1,119
Comprehensive income attributable to Weyco Group, Inc.	\$ 6,072	\$ 5,735	\$ 10,616	\$ 11,917

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)

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 10,991	\$ 12,059
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities -		
Depreciation	2,967	2,442
Amortization	280	249
Bad debt expense	121	173
Deferred income taxes	(945)	(1,381)
Net gain on remeasurement of contingent consideration	-	(1,681)
Net foreign currency transaction losses	425	83
Stock-based compensation	948	896
Pension contribution	(1,282)	-
Pension expense	2,766	2,638
Other-than-temporary investment impairment	200	-
Increase in cash surrender value of life insurance	(250)	(250)
Changes in operating assets and liabilities -		
Accounts receivable	(13,267)	(15,163)
Inventories	12,648	(145)
Prepays and other assets	3,303	848
Accounts payable	(4,451)	(3,401)
Accrued liabilities and other	(2,144)	365
Accrued income taxes	1,563	2,217
Net cash provided by (used for) operating activities	13,873	(51)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(22)	-
Proceeds from maturities of marketable securities	9,833	5,947
Life insurance premiums paid	(155)	(155)
Investment in real estate	(3,206)	-
Purchase of property, plant and equipment	(1,912)	(5,411)
Net cash provided by investing activities	4,538	381
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(3,881)	(5,351)
Shares purchased and retired	(4,623)	(5,684)
Proceeds from stock options exercised	3,558	2,216
Payment of contingent consideration	(1,270)	-
Payment of indemnification holdback	-	(2,000)
Proceeds from bank borrowings	11,000	22,000
Repayments of bank borrowings	(31,000)	(15,000)
Income tax benefits from stock-based compensation	514	643
Net cash used for financing activities	(25,702)	(3,176)
Effect of exchange rate changes on cash and cash equivalents	(247)	46

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Net decrease in cash and cash equivalents	\$ (7,538)	\$ (2,800)
CASH AND CASH EQUIVALENTS at beginning of period	17,288	10,329
CASH AND CASH EQUIVALENTS at end of period	\$ 9,750	\$ 7,529
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid, net of refunds	\$ 4,784	\$ 4,665
Interest paid	\$ 266	\$ 309

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 nine months ended September 30, 2013 are not necessarily indicative of the results for the full year.

2. Reclassifications

Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation. Such reclassifications had no effect on previously reported net income or equity.

3. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Numerator:				
Net earnings attributable to Weyco Group, Inc.	\$ 5,392	\$ 5,192	\$ 10,797	\$ 11,280
Denominator:				
Basic weighted average shares outstanding	10,786	10,827	10,770	10,860
Effect of dilutive securities:				
Employee stock-based awards	87	84	70	114
Diluted weighted average shares outstanding	10,873	10,911	10,840	10,974
Basic earnings per share	\$ 0.50	\$ 0.48	\$ 1.00	\$ 1.04
Diluted earnings per share	\$ 0.50	\$ 0.48	\$ 1.00	\$ 1.03

Diluted weighted average shares outstanding for the three and nine months ended September 30, 2013 exclude anti-dilutive stock options totaling 218,075 shares of common stock at a weighted average price of \$27.50. Diluted weighted average shares outstanding for the three and nine months ended September 30, 2012 exclude anti-dilutive stock options totaling 711,330 shares of common stock at a weighted average price of \$25.68.

4. Investments

As noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, 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 bond investments to maturity.

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Below is a summary of the amortized cost and estimated market values of the Company's investment securities as of September 30, 2013 and December 31, 2012.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	(Dollars in thousands)			
Municipal bonds:				
Current	\$ 5,875	\$ 5,949	\$ 8,004	\$ 8,117
Due from one through five years	19,941	20,900	25,384	26,620
Due from six through ten years	8,344	8,797	10,832	11,756
Total	\$ 34,160	\$ 35,646	\$ 44,220	\$ 46,493

The unrealized gains and losses on investment securities as of September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013		December 31, 2012	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
	(Dollars in thousands)			
Municipal bonds	\$ 1,486	\$ -	\$ 2,473	\$ 200

The estimated market values provided are level 2 valuations as defined by ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”).

The Company regularly reviews its investments to determine whether a decline in fair value below the cost basis is other-than-temporary. To determine if a decline in value is other-than-temporary, the Company considers all available evidence, including the issuer’s financial condition, the severity and duration of the decline in fair value, and the Company’s intent and ability to hold the investment for a reasonable period of time sufficient for any forecasted recovery. If a decline in value is deemed other-than-temporary, the Company records a reduction in the carrying value to the estimated fair value. In the third quarter of 2013, the Company reviewed its investments and concluded that the unrealized loss on one of its municipal bonds was other-than-temporary. The Company had been monitoring the status of the bond. In September 2013, a public notice was issued by the municipality that caused the Company to doubt the ultimate collectability of the bond. Considering this, all prior public information regarding the bond, and the duration of the loss, the Company determined the unrealized loss on the bond was other-than-temporary. Accordingly, the Company wrote the bond down to fair value and recorded an impairment loss of \$200,000. The loss was included within other income and expense, net in the Consolidated Condensed Statements of Earnings and Comprehensive Income (Unaudited).

On May 1, 2013, the Company purchased a 50% interest in a building in Montreal, Canada for approximately \$3.2 million. This building serves as the Company’s Canadian office and distribution center. This real estate investment is accounted for as an equity-method investment under ASC 323, *Investments – Equity Method and Joint Ventures* (“ASC 323”) and is included within other assets in the Consolidated Condensed Balance Sheets (Unaudited).

5. 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 September 30, 2013:

	Weighted Average Life (Yrs)	September 30, 2013		
		Gross Carrying Amount	Accumulated Amortization	Net
(Dollars in thousands)				
Indefinite-lived intangible assets:				
Goodwill		\$ 11,112	\$ -	\$ 11,112
Trademarks		34,748	-	34,748
Total indefinite-lived intangible assets		\$ 45,860	\$ -	\$ 45,860
Amortizable intangible assets:				
Non-compete agreement	5	\$ 200	\$ (103)	\$ 97
Customer relationships	15	3,500	(603)	2,897
Total amortizable intangible assets		\$ 3,700	\$ (706)	\$ 2,994

The Company's indefinite-lived and amortizable intangible assets as recorded in the Consolidated Condensed Balance Sheets (Unaudited) consisted of the following as of December 31, 2012:

	Weighted Average Life (Yrs)	December 31, 2012		Net
		Gross Carrying Amount (Dollars in thousands)	Accumulated Amortization	
Indefinite-lived intangible assets:				
Goodwill		\$ 11,112	\$ -	\$ 11,112
Trademarks		34,748	-	34,748
Total indefinite-lived intangible assets		\$ 45,860	\$ -	\$ 45,860
Amortizable intangible assets:				
Non-compete agreement	5	\$ 200	\$ (73)	\$ 127
Customer relationships	15	3,500	(428)	3,072
Total amortizable intangible assets		\$ 3,700	\$ (501)	\$ 3,199

The Company's amortizable intangible assets are included within other assets in the Consolidated Condensed Balance Sheets (Unaudited).

6. 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 or expense, other income or expense, and income taxes are not allocated to the segments. The "other" category in the tables 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 nine months ended September 30, 2013 and 2012 was as follows:

Three Months Ended September 30,	Wholesale	Retail	Other	Total
	(Dollars in thousands)			
2013				
Product sales	\$ 63,914	\$ 5,232	\$ 13,124	\$ 82,270
Licensing revenues	838	-	-	838
Net sales	\$ 64,752	\$ 5,232	\$ 13,124	\$ 83,108
Earnings from operations	\$ 7,073	\$ 512	\$ 1,001	\$ 8,586
2012				
Product sales	\$ 60,198	\$ 5,521	\$ 12,916	\$ 78,635
Licensing revenues	838	-	-	838
Net sales	\$ 61,036	\$ 5,521	\$ 12,916	\$ 79,473
Earnings from operations	\$ 6,559	\$ 322	\$ 1,227	\$ 8,108
Nine Months Ended September 30,				
	(Dollars in thousands)			
2013				

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Product sales	\$ 165,421	\$ 16,363	\$ 37,897	\$ 219,681
Licensing revenues	2,058	-	-	2,058
Net sales	\$ 167,479	\$ 16,363	\$ 37,897	\$ 221,739
Earnings from operations	\$ 12,984	\$ 1,538	\$ 2,432	\$ 16,954
2012				
Product sales	\$ 159,175	\$ 16,771	\$ 37,072	\$ 213,018
Licensing revenues	2,102	-	-	2,102
Net sales	\$ 161,277	\$ 16,771	\$ 37,072	\$ 215,120
Earnings from operations	\$ 13,121	\$ 355	\$ 3,867	\$ 17,343

7. Employee Retirement Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Benefits earned during the period	\$ 447	\$ 352	\$ 1,279	\$ 1,120
Interest cost on projected benefit obligation	608	571	1,794	1,746
Expected return on plan assets	(525)	(510)	(1,569)	(1,484)
Net amortization and deferral	440	356	1,262	1,256
Net pension expense	\$ 970	\$ 769	\$ 2,766	\$ 2,638

The Company made approximately \$1.3 million in pension contributions during the nine months ended September 30, 2013. No additional cash contributions are expected for the remainder of 2013.

8. Stock-Based Compensation Plans

During the three and nine months ended September 30, 2013, the Company recognized approximately \$315,000 and \$948,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in years 2009 through 2012. During the three and nine months ended September 30, 2012, the Company recognized approximately \$298,000 and \$896,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in years 2008 through 2011.

The following table summarizes the Company's stock option activity for the nine-month period ended September 30, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Outstanding at December 31, 2012	1,265,792			