

WEYCO GROUP INC
Form 10-Q
November 08, 2007

FORM 10-Q
SECURITIES & EXCHANGE COMMISSION
Washington, D. C. 20549

(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, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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 Exchange Act).

Yes No

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As of November 5, 2007 the following shares were outstanding:

Common Stock, \$1.00 par value	11,553,410Shares
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

The 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)

	September 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,423,770	\$ 15,314,140
Marketable securities, at amortized cost	2,499,012	1,600,871
Accounts receivable, net	38,089,137	30,641,632
Inventories	45,307,078	51,000,849
Deferred income tax benefits	705,027	949,109
Prepaid expenses and other current assets	1,166,362	1,715,859
Total current assets	95,190,386	101,222,460
MARKETABLE SECURITIES, at amortized cost	44,759,685	40,361,296
OTHER ASSETS	9,094,678	8,725,346
PLANT AND EQUIPMENT, net	28,730,355	28,445,900
TRADEMARK	10,867,969	10,867,969
	\$ 188,643,073	\$ 189,622,971
LIABILITIES & SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Short-term borrowings	\$ 5,528,380	\$ 10,957,518
Accounts payable	8,768,857	12,398,740
Dividend payable	1,270,875	1,054,354
Accrued liabilities	9,310,892	8,430,267
Accrued income taxes	849,330	72,907
Total current liabilities	25,728,334	32,913,786
LONG-TERM PENSION LIABILITY	7,015,883	6,620,842
DEFERRED INCOME TAX LIABILITIES	1,834,695	1,915,869
SHAREHOLDERS' INVESTMENT:		
Common stock	11,553,410	9,129,256
Class B common stock	—	2,585,087
Capital in excess of par value	10,584,871	7,576,096
Reinvested earnings	137,249,323	134,264,076
Accumulated other comprehensive loss	(5,323,443)	(5,382,041)
Total shareholders investment	154,064,161	148,172,474
	\$ 188,643,073	\$ 189,622,971

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

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WEYCO GROUP, INC. AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
FOR THE PERIODS ENDED SEPTEMBER 30, 2007 AND 2006 (UNAUDITED)

	Three Months ended September 30,		Nine Months ended September 30,	
	2007	2006	2007	2006
NET SALES	\$ 58,162,778	\$ 56,084,718	\$ 170,391,645	\$ 160,484,367
COST OF SALES	36,345,977	35,484,325	106,830,085	101,391,210
Gross earnings	21,816,801	20,600,393	63,561,560	59,093,157
SELLING AND ADMINISTRATIVE EXPENSES	13,897,896	12,744,934	41,057,321	37,547,263
Earnings from operations	7,918,905	7,855,459	22,504,239	21,545,894
INTEREST INCOME	566,611	488,670	1,628,915	1,468,378
INTEREST EXPENSE	(79,546)	(145,271)	(287,690)	(442,565)
OTHER INCOME (EXPENSE), net	3,118	(5,720)	7,364	(2,248)
Earnings before provision for income taxes	8,409,088	8,193,138	23,852,828	22,569,459
PROVISION FOR INCOME TAXES	3,075,000	3,025,000	8,775,000	8,450,000
Net earnings	\$ 5,334,088	\$ 5,168,138	\$ 15,077,828	\$ 14,119,459
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	11,521,515	11,675,238	11,583,700	11,621,084
Diluted	11,973,467	12,098,045	12,036,286	12,031,126
EARNINGS PER SHARE				
Basic	\$.46	\$.44	\$ 1.30	\$ 1.21
Diluted	\$.45	\$.43	\$ 1.25	\$ 1.17
CASH DIVIDENDS PER SHARE	\$.11	\$.09	\$.31	\$.25

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

WEYCO GROUP, INC. AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (UNAUDITED)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 15,077,828	\$ 14,119,459
Adjustments to reconcile net earnings to net cash provided by operating activities –		
Depreciation	1,856,953	1,604,725
Amortization	65,185	54,613
Deferred income taxes	(16,092)	147,891
Stock-based compensation	218,214	—
Pension contribution	—	(1,000,000)
Pension expense	1,008,339	894,753
Gain on sale of assets	—	13
Increase in cash surrender value of life insurance	(388,890)	(376,605)
Changes in operating assets and liabilities -		
Accounts receivable	(7,447,505)	(7,142,029)
Inventories	5,693,771	(8,491,320)
Prepays and other current assets	569,055	617,670
Accounts payable	(3,629,883)	(3,934,596)
Accrued liabilities and other	464,053	1,333,778
Accrued income taxes	803,423	(650,978)
Net cash provided by (used for) operating activities	14,274,451	(2,822,626)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(6,243,754)	(17,813,020)
Proceeds from maturities of marketable securities	882,039	6,112,114
Purchase of plant and equipment	(2,162,536)	(2,245,677)
Proceeds from sales of plant and equipment	62,000	996
Net cash used for investing activities	(7,462,251)	(13,945,587)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(3,384,870)	(2,665,206)
Shares purchased and retired	(8,856,879)	(3,124,644)
Proceeds from stock options exercised	1,847,220	1,828,579
Net (repayments) draws under revolving credit agreement	(5,429,138)	2,050,062
Income tax benefit from the exercise of stock options	1,121,097	1,198,462
Net cash used for financing activities	(14,702,570)	(712,747)
Net decrease in cash and cash equivalents	(7,890,370)	(17,480,960)
CASH AND CASH EQUIVALENTS at beginning of period	\$ 15,314,140	\$ 22,780,913
CASH AND CASH EQUIVALENTS at end of period	\$ 7,423,770	\$ 5,299,953
SUPPLEMENTAL CASH FLOW INFORMATION:		

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Income taxes paid, net of refunds	\$	6,897,595	\$	7,638,064
Interest paid	\$	319,649	\$	443,781

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

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NOTES:

1. **Financial Statements**

In the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial information have been made. The results of operations for the three months or nine months ended September 30, 2007, are not necessarily indicative of 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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net Earnings	\$ 5,334,088	\$ 5,168,138	\$ 15,077,828	\$ 14,119,459
Denominator:				
Basic weighted average shares	11,521,515	11,675,238	11,583,700	11,621,084
Effect of dilutive securities:				
Employee stock options	451,952	422,807	452,586	410,042
Diluted weighted average shares	11,973,467	12,098,045	12,036,286	12,031,126
Basic earnings per share	\$.46	\$.44	\$ 1.30	\$ 1.21
Diluted earnings per share	\$.45	\$.43	\$ 1.25	\$ 1.17

Diluted weighted average shares outstanding for the quarter and nine months ended September 30, 2007 and 2006 included all outstanding options, as none were antidilutive.

3. **Segment Information**

The Company continues to operate in two operating segments: wholesale distribution and retail sales of men's footwear, which also constitute its reportable segments. None of the Company's operating segments were aggregated in determining the Company's reportable segments. 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. Summarized segment data for the three and nine months ended September 30, 2007 and 2006 was:

	Wholesale Distribution	Retail	Total
<u>Three Months Ended September 30,</u>			
<u>2007</u>			
Product sales	\$ 50,504,000	\$ 6,852,000	\$ 57,356,000
Licensing revenues	807,000	—	807,000
Net sales	51,311,000	6,852,000	58,163,000
Earnings from operations	7,314,000	605,000	7,919,000
<u>2006</u>			
Product sales	\$ 48,472,000	\$ 6,697,000	\$ 55,169,000
Licensing revenues	916,000	—	916,000
Net sales	49,388,000	6,697,000	56,085,000
Earnings from operations	7,086,000	769,000	7,855,000
<u>Nine Months Ended September 30,</u>			
<u>2007</u>			
Product sales	\$ 145,892,000	\$ 21,771,000	\$ 167,663,000
Licensing revenues	2,729,000	—	2,729,000
Net sales	148,621,000	21,771,000	170,392,000
Earnings from operations	19,866,000	2,638,000	22,504,000
<u>2006</u>			
Product sales	\$ 137,143,000	\$ 20,416,000	\$ 157,559,000
Licensing revenues	2,925,000	—	2,925,000
Net sales	140,068,000	20,416,000	160,484,000
Earnings from operations	18,763,000	2,783,000	21,546,000

4.

Share-Based Compensation Plans

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," (SFAS 123(R)) using the modified prospective method. This method requires that companies recognize compensation expense for new grants and the unvested portion of prior grants at their fair value on the grant date and recognize this expense over the requisite service period for awards expected to vest. The results for prior year periods have not been restated. No stock-based employee compensation expense has been charged against income in the nine month period ended September 30, 2006, as there were no stock options granted during this period, and all of the Company's stock options granted prior to the effective date were 100% vested at the effective date. The Company's policy is to estimate the fair market value of each option granted on the date of grant using the Black-Scholes option pricing model and record the compensation expense on a straight-line basis over the vesting period. The Company issues new common stock to satisfy stock option exercises.

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The following table summarizes the stock option activity under the Company's plans for the nine-month period ended September 30, 2007:

	Shares	Weighted Average Exercise Price	Wtd. Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Outstanding at December 31, 2006	1,252,190	\$ 12.62		
Exercised	(180,966)	\$ 10.21		
Forfeited	(3,700)	\$ —		
Outstanding at September 30, 2007	1,067,524	\$ 12.99	4.55	\$ 19,663,230
Exercisable at September 30, 2007	1,023,324	\$ 12.51	4.56	\$ 19,339,686

*The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between market value at September 30, 2007 of \$31.41 and the exercise price.

The following table summarizes stock option activity for the three- and nine-month periods ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Total intrinsic value of stock options exercised	\$ 577,087	\$ 875,935	\$ 2,864,606	\$ 3,072,980
Cash received from stock option exercises	\$ 456,978	\$ 633,090	\$ 1,847,220	\$ 1,828,579
Income tax benefit from the exercise of stock options	\$ 225,064	\$ 341,614	\$ 1,121,097	\$ 1,198,462
Total fair value of stock options vested	\$ —	\$ —	\$ —	\$ —

5. Shareholders' Investment

On July 1, 2007, the Company's Class B Common stock expired and each share was automatically converted one-for-one into the Company's Common stock.

6. Comprehensive Income

Comprehensive income for the three- and nine-months ended September 30, 2007 and 2006 was as follows:

	Three Months Ended September 30,		Nine Months ended September 30,	
	2007	2006	2007	2006
Net earnings	\$ 5,334,088	\$ 5,168,138	\$ 15,077,828	\$ 14,119,459
Foreign currency translation adjustments	20,740	31,664	(224,102)	135,890
Change in unrecognized pension plan liabilities, net of tax	95,000	—	283,000	—
Total comprehensive income	\$ 5,449,828	\$ 5,199,802	\$ 15,136,726	\$ —