WEYCO GROUP INC
Form 10-Q
August 04, 2011

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 June 30, 2011

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 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 x 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 August 2, 2011, there were 11,006,184 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 SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

	June 30, 2011	December 31, 2010
	(Dollars in thousands)	
ASSETS:		
Cash and cash equivalents	$10,175	$ 7,150
Marketable securities, at amortized cost	3,066	4,989
Accounts receivable, net	34,830	38,840
Accrued income tax receivable	2,149	-
Inventories	54,575	56,111
Prepaid expenses and other current assets	3,912	4,398
Total current assets	108,707	111,488
Marketable securities, at amortized cost	56,034	58,059
Deferred income tax benefits	2,413	1,090
Other assets	17,846	14,375
Property, plant and equipment, net	27,624	25,675
Goodwill	11,027	-
Trademarks	34,748	12,748
Total assets	$258,399	$ 223,435
LIABILITIES AND EQUITY:		
Short-term borrowings	$35,950	$ 5,000
Accounts payable	7,380	10,360
Dividend payable	1,756	1,811
Accrued liabilities	9,750	10,204
Accrued income taxes	-	116
Deferred income tax liabilities	790	228
Total current liabilities	55,626	27,719
Long-term pension liability	19,306	18,572
Other long-term liabilities	11,753	-
Common stock	10,986	11,356
Capital in excess of par value	21,131	19,548
Reinvested earnings	142,521	150,546
Accumulated other comprehensive loss	(8,232)	(9,004)

Total Weyco Group, Inc. equity	166,406	172,446
Noncontrolling interest	5,308	4,698
Total equity	171,714	177,144
Total liabilities and equity	$258,399	$ 223,435

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
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Net sales	$56,550	$48,724	$ 121,696	$ 109,762
Cost of sales	33,887	30,066	74,208	67,696
Gross earnings	22,663	18,658	47,488	42,066
Selling and administrative expenses	19,930	16,972	39,946	34,939
Earnings from operations	2,733	1,686	7,542	7,127
Interest income	586	607	1,176	1,105
Interest expense	(137)	(87)	(227)	(87)
Other income and expense, net	52	(351)	108	(218)
Earnings before provision for income taxes	3,234	1,855	8,599	7,927
Provision for income taxes	946	774	2,809	2,864
Net earnings	2,288	1,081	5,790	5,063
Net earnings (loss) attributable to noncontrolling interest	351	(201)	481	(76)
Net earnings attributable to Weyco Group, Inc.	$1,937	$1,282	$ 5,309	$ 5,139
Weighted average shares outstanding				
Basic	11,120	11,326	11,221	11,309
Diluted	11,239	11,533	11,358	11,514
Earnings per share				
Basic	$0.17	$0.11	$ 0.47	$ 0.45
Diluted	$0.17	$0.11	$ 0.47	$ 0.45
Cash dividends per share	$0.16	$0.16	$ 0.32	$ 0.31

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, 2011 AND 2010 (UNAUDITED)

	2011	2010
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$5,790	$5,063
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation	1,342	1,386
Amortization	83	60
Bad debt expense	99	65
Deferred income taxes	(957)	(475)
Net foreign currency transaction (gains) losses	(121)	213
Stock-based compensation	597	569
Pension expense	1,474	1,624
Net gains on disposal of assets	(13)	-
Increase in cash surrender value of life insurance	(127)	(120)
Change in operating assets and liabilities, net of effects from acquisitions -		
Accounts receivable	8,083	1,930
Inventories	4,662	2,843
Prepaids and other current assets	1,060	175
Accounts payable	(3,484)	(2,574)
Accrued liabilities and other	(1,320)	(900)
Accrued income taxes	(2,281)	(1,972)
Net cash provided by operating activities	14,887	7,887
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses, net of cash acquired	(27,023)	(2,509)
Purchase of marketable securities	(80)	(21,802)
Proceeds from maturities of marketable securities	4,035	3,648
Proceeds from the sale of assets	13	-
Life insurance premiums paid	(155)	(155)
Purchase of property, plant and equipment	(3,117)	(646)
Net cash used for investing activities	(26,327)	(21,464)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(3,634)	(3,401)
Shares purchased and retired	(10,205)	(753)
Proceeds from stock options exercised	725	607
Repayment of debt assumed in acquisition	(3,814)	-
Net borrowings of commercial paper	19,950	-
Proceeds from bank borrowings	31,000	-
Repayments of bank borrowings	(20,000)	-
Income tax benefits from stock-based compensation	341	331
Net cash provided by (used for) financing activities	14,363	(3,216)
Effect of exchange rate changes on cash and cash equivalents	102	(98)

Net increase (decrease) in cash and cash equivalents	3,025	(16,891)
CASH AND CASH EQUIVALENTS at beginning of period	$7,150	$30,000
CASH AND CASH EQUIVALENTS at end of period	$10,175	$13,109
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid, net of refunds	$4,751	$5,352
Interest paid	$221	$82

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, 2011 are not necessarily indicative of the results for the full year.

2. Acquisitions

Bogs acquisition

On March 2, 2011, the Company acquired 100% of the outstanding shares of The Combs Company (“Bogs”) from its former shareholders for $29.3 million in cash plus debt assumed of $3.8 million and contingent payments after two and five years, dependent on Bogs achieving certain performance measures. In accordance with the agreement, $2.0 million of the cash portion of the purchase price was held back to be used to help satisfy any claims of indemnification by the Company, and any amounts not used therefore, will be paid to the seller 18 months from the date of acquisition. At the acquisition date, the Company preliminarily estimated the fair value of the two contingent payments to be approximately $9.8 million in the aggregate. Bogs designs and markets boots, shoes and sandals for men, women and children, under the BOGS and Rafters brand names. Its products are sold across the agricultural, industrial, outdoor specialty, outdoor sport, lifestyle and fashion markets. Bogs sales for its most recent fiscal year were approximately $27 million.

The acquisition was funded with available cash and short-term borrowings under the Company’s $50 million borrowing facility.

The acquisition of Bogs has been accounted for in these financial statements as a business combination under Accounting Standards Codification (“ASC”) 805, Business Combinations (“ASC 805”). Under ASC 805, the total purchase price is allocated to tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the acquisition date. The determination of fair values requires an extensive use of estimates and judgments, and accordingly, the allocation in the table below is preliminary and will be adjusted upon completion of the final valuation of the assets acquired and liabilities assumed. Such adjustments could be significant. The final valuation is expected to be completed as soon as practicable but no later than 12 months after the closing date of the acquisition.

The Company’s preliminary allocation of the purchase price as of June 30, 2011 is as follows (dollars in thousands):

Cash	$317
Accounts receivable, net	3,962
Inventory	2,809
Prepaids	15
Deferred income tax benefits	85
Property, plant and equipment, net	7
Goodwill	11,027
Trademark	22,000
Other intangible assets	3,700
Accounts payable	(454)
Accrued liabilities	(561)
	$42,907

Other intangible assets consist of customer relationships and a non-compete agreement. Goodwill reflects the excess purchase price over the fair value of net assets, and has been assigned to the North American wholesale segment. All of the goodwill is expected to be deductible for tax purposes. For more information on the intangible assets acquired, see Note 5.

The Company has recorded the estimated fair value of the contingent payments at the acquisition date, of $9.8 million, within other long-term liabilities on the Company’s Consolidated Balance Sheets. The estimated fair value of the contingent payments was based on a probability-weighted model, and is subject to change. Any changes within the 12 months following the acquisition date that relate to factors that existed at the acquisition date will be reflected within the final valuation of the purchase price. Any changes thereafter will be recognized in earnings. A change in the fair value of the contingent payments could have a material effect on the Company’s earnings and financial position. The fair value measurement is based on significant inputs not observed in the market and thus represents a level 3 valuation as defined by ASC 820, Fair Value Measurements and Disclosures (“ASC 820”).

The operating results of Bogs for the period March 2 through June 30, 2011 have been consolidated into the Company’s North American wholesale operations in 2011. For the second quarter and for the period March 2 through June 30, 2011, net sales of Bogs were approximately $2.6 million and $4.9 million, respectively. The Company incurred transaction costs of approximately $220,000 in 2011. These costs are included in wholesale selling and administrative expenses.

Pro Forma Results of Operations

The following unaudited pro forma results of operations assume that the Company acquired Bogs on January 1, 2011 and 2010, respectively. The unaudited pro forma results include adjustments to reflect additional amortization of intangible assets, interest expense and a corresponding estimate of the provision for income taxes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Net sales	$ 56,550	$ 50,937	$ 126,064	$ 116,425
Net earnings attributable to Weyco Group, Inc.	$ 1,937	$ 935	$ 5,138	$ 5,099

The unaudited pro forma information presented above is not necessarily indicative of either the results of operations that would have occurred had the acquisition of Bogs been effective on January 1, 2011 or 2010, respectively, or of the Company's future results of operations.

Umi 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 $2.6 million. The acquisition has been accounted for in these financial statements as a business combination under ASC 805. The Company allocated the purchase price to accounts receivable, trademarks and other assets. The operating results of Umi have been consolidated into the Company's North American wholesale segment since the date of acquisition. Accordingly, the Company's 2011 results included Umi's operations from January 1 through June 30, 2011, while 2010 only included Umi for the period April 28 through June 30, 2011. Additional disclosures required by ASC 805 have not been provided as the Umi 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,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Numerator:				
Net earnings attributable to Weyco Group, Inc.	$1,937	$1,282	$5,309	$5,139
Denominator:				
Basic weighted average shares outstanding	11,120	11,326	11,221	11,309
Effect of dilutive securities:				
Employee stock-based awards	119	207	137	205
Diluted weighted average shares outstanding	11,239	11,533	11,358	11,514
Basic earnings per share	$0.17	$0.11	$0.47	$0.45
Diluted earnings per share	$0.17	$0.11	$0.47	$0.45

Diluted weighted average shares outstanding for the three and six months ended June 30, 2011 excluded outstanding options to purchase 460,675 shares of common stock at a weighted average price of $26.80, as they were antidilutive. 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.

4. Investments

As noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, all of the Company's investments are classified as held-to-maturity securities and 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, 2011 and December 31, 2010 as reported in the Consolidated Condensed Balance Sheets was $59.1 million and $63.0 million, respectively. The estimated fair market value of those marketable securities at June 30, 2011 and December 31, 2010 was $61.3 million and $64.2 million, respectively.

The unrealized gains and losses on marketable securities at June 30, 2011 and December 31, 2010 were:

	June 30, 2011		December 31, 2010	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
	(Dollars in thousands)			
Municipal bonds	$ 2,490	$ 241	$ 1,656	$ 518

The estimated market values provided are level 2 valuations as defined by ASC 820. The Company has reviewed its portfolio of marketable securities as of June 30, 2011 and has determined that no other-than-temporary market value impairment exists.

5. Intangible Assets

The Company's amortized and unamortized intangible assets as recorded in the accompanying balance sheets consisted of:

		June 30, 2011			December 31, 2010		
	Wtd. Average Life (Yrs)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
				(Dollars in thousands)			
Amortized intangible assets:							
Non-compete agreement	5	$ 200	$ (13)	$ 187	$ -	$ -	$ -
Customer relationships	15	3,500	(78)	3,422	-	-	-
Total amortized intangible assets		3,700	(91)	3,609	-	-	-
Goodwill		11,027	-	11,027	-	-	-
Trademarks (indefinite-lived)		34,748	-	34,748	12,748	-	12,748
Total intangible assets		$ 49,475	$ (91)	$ 49,384	$ 12,748	$ -	$ 12,748

The Company's amortized intangible assets are included within other assets on the Company's Consolidated Balance Sheets. The change in the carrying amount of goodwill and other intangible assets is due to the Bogs acquisition on March 2, 2011. See Note 2. The indefinite-lived assets and goodwill will be evaluated for impairment at least annually and more often when events indicate that impairment exists.

Excluding the impact of any future acquisitions, the Company anticipates amortization expense to be approximately $228,000 in 2011 and $273,000 annually in the years 2012 through 2015.

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, 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, 2011 and 2010 was:

Three Months Ended June 30,	Wholesale	Retail	Other	Total
	(Dollars in thousands)			
2011				
Product sales	$ 38,745	$ 5,866	$ 11,289	$ 55,900
Licensing revenues	650	-	-	650
Net sales	$ 39,395	$ 5,866	$ 11,289	$ 56,550
Earnings from operations	$ 1,025	$ 202	$ 1,507	$ 2,734
2010				
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

Six Months Ended June 30,	Wholesale	Retail	Other	Total
	(Dollars in thousands)			
2011				
Product sales	$ 86,385	$ 11,443	$ 22,715	$ 120,543
Licensing revenues	1,153	-	-	1,153
Net sales	$ 87,538	$ 11,443	$ 22,715	$ 121,696
Earnings from operations	$ 4,662	$ 142	$ 2,739	$ 7,543
2010				
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

Total assets in the North American wholesale segment were $222.2 million at June 30, 2011 and $189.8 million at December 31, 2010. The increase was primarily due to the Bogs acquisition on March 2, 2011. See Note 2.

7. Employee Retirement Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Benefits earned during the period	$321	$300	$642	$585
Interest cost on projected benefit obligation	595	612	1,191	1,224
Expected return on plan assets	(505)	(463)	(1,010)	(910)
Net amortization and deferral	326	362	651	725
Net pension expense	$737	$811	$1,474	$1,624

8. Stock-Based Compensation Plans

During the three and six months ended June 30, 2011, the Company recognized approximately $329,000 and $597,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in the years 2007 through 2010. 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.

The following table summarizes the stock option activity under the Company’s plans for the six-month period ended June 30, 2011:

	Shares	Weighted Average Exercise Price	Wtd. Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Outstanding at December 31, 2010	1,269,426			