

WEYCO GROUP INC  
Form 10-Q  
August 09, 2012

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, 2012**

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, 2012, there were 10,873,612 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 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, 2012	December 31, 2011
	(Dollars in thousands)	
<b>ASSETS:</b>		
Cash and cash equivalents	\$9,266	\$ 10,329
Marketable securities, at amortized cost	5,513	4,745
Accounts receivable, net	38,246	43,636
Accrued income tax receivable	1,211	816
Inventories	60,615	62,689
Deferred income tax benefits	100	395
Prepaid expenses and other current assets	5,178	5,613
Total current assets	120,129	128,223
Marketable securities, at amortized cost	43,118	46,839
Deferred income tax benefits	4,205	3,428
Property, plant and equipment, net	31,583	31,077
Goodwill	11,112	11,112
Trademarks	34,748	34,748
Other assets	18,270	18,081
Total assets	\$263,165	\$ 273,508
<b>LIABILITIES AND EQUITY:</b>		
Short-term borrowings	\$34,000	\$ 37,000
Accounts payable	4,405	12,936
Dividend payable	1,848	1,742

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Accrued liabilities	14,387	13,217
Total current liabilities	54,640	64,895
Long-term pension liability	27,107	26,344
Other long-term liabilities	7,832	10,879
Equity:		
Common stock	10,882	10,922
Capital in excess of par value	24,730	22,222
Reinvested earnings	145,104	146,266
Accumulated other comprehensive loss	(13,325 )	(13,419 )
Total Weyco Group, Inc. equity	167,391	165,991
Noncontrolling interest	6,195	5,399
Total equity	173,586	171,390
Total liabilities and equity	\$263,165	\$ 273,508

*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 Six Months		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Net sales	\$60,333	\$56,550	\$ 135,647	\$ 121,696
Cost of sales	37,455	33,887	84,738	74,208
Gross earnings	22,878	22,663	50,909	47,488
Selling and administrative expenses	19,476	19,930	41,674	39,946
Earnings from operations	3,402	2,733	9,235	7,542
Interest income	483	586	966	1,176
Interest expense	(116 )	(137 )	(245 )	(227 )
Other income and expense, net	(123 )	52	(65 )	108
Earnings before provision for income taxes	3,646	3,234	9,891	8,599
Provision for income taxes	1,094	946	3,284	2,809
Net earnings	2,552	2,288	6,607	5,790
Net earnings attributable to noncontrolling interest	333	351	519	481
Net earnings attributable to Weyco Group, Inc.	\$2,219	\$1,937	\$ 6,088	\$ 5,309
Weighted average shares outstanding				
Basic	10,865	11,120	10,877	11,221
Diluted	10,982	11,239	11,005	11,358
Earnings per share				
Basic	\$0.20	\$0.17	\$ 0.56	\$ 0.47
Diluted	\$0.20	\$0.17	\$ 0.55	\$ 0.47
Cash dividends per share	\$0.17	\$0.16	\$ 0.33	\$ 0.32
Comprehensive income	\$2,088	\$2,689	\$ 6,978	\$ 6,691
Comprehensive income attributable to noncontrolling interest	151	420	796	610
Comprehensive income attributable to Weyco Group, Inc.	\$1,937	\$2,269	\$ 6,182	\$ 6,081

*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,	
	2012	2011
	(Dollars in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 6,607	\$ 5,790
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation	1,603	1,342
Amortization	184	83
Bad debt expense	152	99
Deferred income taxes	(841 )	(957 )
Net gain on remeasurement of contingent consideration	(1,219 )	-
Net foreign currency transaction losses (gains)	90	(121 )
Stock-based compensation	598	597
Pension expense	1,869	1,474
Net losses (gains) on disposal of property, plant and equipment	3	(13 )
Increase in cash surrender value of life insurance	(115 )	(127 )
Changes in operating assets and liabilities, net of effects from acquisitions -		
Accounts receivable	5,244	8,083
Inventories	2,082	4,662
Prepays and other assets	376	1,060
Accounts payable	(8,547 )	(3,484 )
Accrued liabilities and other	(1,099 )	(1,320 )
Accrued income taxes	(392 )	(2,281 )
Net cash provided by operating activities	6,595	14,887
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of businesses, net of cash acquired	-	(27,023 )
Purchase of marketable securities	-	(80 )
Proceeds from maturities of marketable securities	2,905	4,035
Proceeds from the sale of property, plant and equipment	-	13
Life insurance premiums paid	(155 )	(155 )
Purchase of property, plant and equipment	(2,128 )	(3,117 )
Net cash provided by (used for) investing activities	622	(26,327 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividends paid	(3,496 )	(3,634 )
Shares purchased and retired	(3,812 )	(10,205 )
Proceeds from stock options exercised	1,566	725
Repayment of debt assumed in acquisition	-	(3,814 )
Net borrowings of commercial paper	-	19,950
Proceeds from bank borrowings	9,000	31,000
Repayments of bank borrowings	(12,000 )	(20,000 )



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Income tax benefits from stock-based compensation	469	341
Net cash (used for) provided by financing activities	(8,273 )	14,363
Effect of exchange rate changes on cash and cash equivalents	(7 )	102
Net (decrease) increase in cash and cash equivalents	\$ (1,063 )	\$ 3,025
CASH AND CASH EQUIVALENTS at beginning of period	10,329	7,150
CASH AND CASH EQUIVALENTS at end of period	\$ 9,266	\$ 10,175
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid, net of refunds	\$ 4,010	\$ 4,751
Interest paid	\$ 191	\$ 221

*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, 2012 are not necessarily indicative of the results for the full year.

**2. Acquisition**

On March 2, 2011, the Company acquired 100% of the outstanding shares of The Combs Company, the owner of the BOGS and Rafters footwear brands. Hereinafter in this document, The Combs Company will be referred to as "Bogs" and the individual BOGS brand will be referred to as "BOGS." The Company acquired Bogs from its former shareholders for \$29.3 million in cash plus assumed debt of approximately \$3.8 million and contingent payments after two and five years (in 2013 and 2016), which are 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's estimate of the fair value of the contingent payments was approximately \$9.8 million in aggregate. For more information regarding the contingent payments, including an estimate of fair value as of June 30, 2012, see Note 10. The acquisition of Bogs was funded with available cash and short-term borrowings under the Company's \$50 million borrowing facility.

The acquisition of Bogs was accounted for in these consolidated condensed 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 Company's final allocation of the purchase price was as follows (dollars in thousands):

Cash	\$317
Accounts receivable, less reserves of \$316	3,839
Inventory	2,932
Prepays	15
Property, plant and equipment, net	7
Goodwill	11,112
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 Company's North American wholesale segment ("wholesale"). All of the goodwill is expected to be deductible for tax purposes. For more information on the intangible assets acquired, see Note 5.

The operating results of Bogs have been consolidated into the Company's wholesale segment since the date of acquisition. Accordingly, the Company's 2012 results included Bogs' operations from January 1 through June 30, 2012, while 2011 only included Bogs' operations from March 2 through June 30, 2011. Bogs net sales were \$9.4 million in the first half of 2012 compared to \$4.9 million in 2011.

*Pro Forma Results of Operations*

The following table provides consolidated results of operations for the six months ended June 30, 2012 compared to unaudited pro forma results of operations for the six months ended June 30, 2011, as if Bogs had been acquired on January 1, 2011. 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.

	Six Months Ended June 30,	
	Actual 2012	Pro forma 2011
	(Dollars in thousands)	
Net sales	\$ 135,647	\$ 126,064
Net earnings attributable to Weyco Group, Inc.	\$ 6,088	\$ 5,138

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 of the Company's future results of operations.

**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,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Numerator:				
Net earnings attributable to Weyco Group, Inc.	\$ 2,219	\$ 1,937	\$ 6,088	\$ 5,309
Denominator:				
Basic weighted average shares outstanding	10,865	11,120	10,877	11,221
Effect of dilutive securities:				
Employee stock-based awards	117	119	128	137
Diluted weighted average shares outstanding	10,982	11,239	11,005	11,358
Basic earnings per share	\$ 0.20	\$ 0.17	\$ 0.56	\$ 0.47
Diluted earnings per share	\$ 0.20	\$ 0.17	\$ 0.55	\$ 0.47

Diluted weighted average shares outstanding for the three and six months ended June 30, 2012 exclude anti-dilutive unvested restricted stock and outstanding stock options totaling 805,000 shares of common stock at a weighted average price of \$25.38. Diluted weighted average shares outstanding for the three and six months ended June 30, 2011 exclude anti-dilutive unvested restricted stock and outstanding stock options totaling 460,675 shares of common stock at a weighted average price of \$26.80.

#### **4. Investments**

As noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, 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* ("ASC 320") 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, 2012 and December 31, 2011 as reported in the Consolidated Condensed Balance Sheets (Unaudited) was \$48.6 million and \$51.6 million, respectively. The estimated fair market value of those marketable securities as of June 30, 2012 and December 31, 2011 was \$51.2 million and \$54.2 million, respectively.

The unrealized gains and losses on investment securities as of June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012		December 31, 2011	
	Unrealized	Unrealized	Unrealized	Unrealized
	Gains	Losses	Gains	Losses
	(Dollars in thousands)			
Municipal bonds	\$2,756	\$ 200	\$2,797	\$ 200

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, 2012 and determined that no other-than-temporary market value impairment exists.

## 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 June 30, 2012:

	June
	30,
	2012
Weighted	Gross