

WEYCO GROUP INC
Form 10-Q
November 05, 2015

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, 2015

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 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, 2015, there were 10,795,764 shares of common stock outstanding.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.**

The following unaudited consolidated condensed financial statements have been prepared by Weyco Group, Inc. (the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these consolidated condensed 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, 2015	December 31, 2014
	(Dollars in thousands)	
ASSETS:		
Cash and cash equivalents	\$ 13,900	\$ 12,499
Marketable securities, at amortized cost	5,739	5,914
Accounts receivable, net	67,098	55,100
Inventories	92,566	69,015
Prepaid expenses and other current assets	4,151	7,521
Total current assets	183,454	150,049
Marketable securities, at amortized cost	20,630	24,540
Deferred income tax benefits	1,116	1,999
Property, plant and equipment, net	31,661	33,694
Goodwill	11,112	11,112
Trademarks	34,748	34,748
Other assets	20,726	21,304
Total assets	\$ 303,447	\$ 277,446
LIABILITIES AND EQUITY:		
Short-term borrowings	\$ 41,974	\$ 5,405
Accounts payable	8,030	15,657
Dividend payable	-	2,045
Accrued liabilities	16,417	12,752

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Accrued income tax payable	729	151
Deferred income tax liabilities	1,864	1,747
Total current liabilities	69,014	37,757
Long-term pension liability	31,959	33,379
Other long-term liabilities	2,656	8,356
Equity:		
Common stock	10,809	10,821
Capital in excess of par value	42,075	37,966
Reinvested earnings	160,385	160,179
Accumulated other comprehensive loss	(19,623)	(18,030)
Total Weyco Group, Inc. equity	193,646	190,936
Noncontrolling interest	6,172	7,018
Total equity	199,818	197,954
Total liabilities and equity	\$ 303,447	\$ 277,446

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,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net sales	\$91,227	\$87,425	\$ 233,213	\$ 225,217
Cost of sales	58,617	55,004	147,443	141,215
Gross earnings	32,610	32,421	85,770	84,002
Selling and administrative expenses	23,474	23,402	67,516	66,726
Earnings from operations	9,136	9,019	18,254	17,276
Interest income	221	297	717	892
Interest expense	(67)	(52)	(97)	(123)
Other expense, net	(524)	(221)	(1,150)	(261)
Earnings before provision for income taxes	8,766	9,043	17,724	17,784
Provision for income taxes	3,389	3,498	6,670	6,488
Net earnings	5,377	5,545	11,054	11,296
Net (losses) earnings attributable to noncontrolling interest	(149)	27	(145)	366
Net earnings attributable to Weyco Group, Inc.	\$5,526	\$5,518	\$ 11,199	\$ 10,930
Weighted average shares outstanding				
Basic	10,793	10,775	10,788	10,810
Diluted	10,884	10,870	10,881	10,902
Earnings per share				
Basic	\$0.51	\$0.51	\$ 1.04	\$ 1.01
Diluted	\$0.51	\$0.51	\$ 1.03	\$ 1.00
Cash dividends declared (per share)	\$0.20	\$0.19	\$ 0.59	\$ 0.56
Comprehensive income	\$4,040	\$4,226	\$ 8,760	\$ 10,823
	(562)	(342)	(846)	235

Comprehensive (loss) income attributable to noncontrolling interest

Comprehensive income attributable to Weyco Group, Inc.	\$4,602	\$4,568	\$ 9,606	\$ 10,588
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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, 2015 2014 (Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$11,054	\$11,296
Adjustments to reconcile net earnings to net cash used for operating activities -		
Depreciation	2,700	2,775
Amortization	334	263
Bad debt expense	190	195
Deferred income taxes	456	(47)
Net foreign currency transaction losses	783	174
Stock-based compensation	1,112	1,046
Pension contributions	(2,633)	(1,300)
Pension expense	2,811	1,659
Increase in cash surrender value of life insurance	(250)	(250)
Changes in operating assets and liabilities -		
Accounts receivable	(12,223)	(14,702)
Inventories	(23,844)	(1,039)
Prepaid expenses and other assets	4,122	1,556
Accounts payable	(7,584)	(5,594)
Accrued liabilities and other	(4,807)	(418)
Accrued income taxes	553	1,010
Net cash used for operating activities	(27,226)	(3,376)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(2,300)	(7,427)
Proceeds from maturities of marketable securities	6,305	7,001
Life insurance premiums paid	(155)	(155)
Purchases of property, plant and equipment	(1,457)	(1,908)
Net cash provided by (used for) investing activities	2,393	(2,489)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(8,414)	(7,999)
Shares purchased and retired	(4,760)	(3,996)
Proceeds from stock options exercised	2,696	1,226
Proceeds from bank borrowings	127,253	70,757
Repayments of bank borrowings	(90,684)	(58,470)
Income tax benefits from stock-based compensation	463	85
Net cash provided by financing activities	26,554	1,603

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Effect of exchange rate changes on cash and cash equivalents	(320)	21
Net increase (decrease) in cash and cash equivalents	\$1,401	\$(4,241)
CASH AND CASH EQUIVALENTS at beginning of period	12,499	15,969
CASH AND CASH EQUIVALENTS at end of period	\$13,900	\$11,728
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid, net of refunds	\$5,155	\$5,501
Interest paid	\$97	\$84

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. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2015, 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 September		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Numerator:				
Net earnings attributable to Weyco Group, Inc.	\$ 5,526	\$ 5,518	\$ 11,199	\$ 10,930
Denominator:				
Basic weighted average shares outstanding	10,793	10,775	10,788	10,810
Effect of dilutive securities:				
Employee stock-based awards	91	95	93	92
Diluted weighted average shares outstanding	10,884	10,870	10,881	10,902
Basic earnings per share	\$ 0.51	\$ 0.51	\$ 1.04	\$ 1.01
Diluted earnings per share	\$ 0.51	\$ 0.51	\$ 1.03	\$ 1.00

Diluted weighted average shares outstanding for the three months ended September 30, 2015, exclude anti-dilutive stock options totaling 644,600 shares of common stock at a weighted average price of \$27.76. Diluted weighted average shares outstanding for the nine months ended September 30, 2015, exclude anti-dilutive stock options totaling 648,220 shares of common stock at a weighted average price of \$27.76. Diluted weighted average shares outstanding for the three months ended September 30, 2014, exclude anti-dilutive stock options totaling 681,600 shares of common stock at a weighted average price of \$27.74. Diluted weighted average shares outstanding for the nine months ended September 30, 2014, exclude anti-dilutive stock options totaling 449,148 shares of common stock at a

weighted average price of \$28.24.

3. Investments

As noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, 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.

Below is a summary of the amortized cost and estimated market values of the Company's investment securities as of September 30, 2015, and December 31, 2014.

	September 30, 2015		December 31, 2014	
	Amortized Cost	Market Value	Amortized Cost	Market Value
(Dollars in thousands)				
Municipal bonds:				
Current	\$5,739	\$5,796	\$5,914	\$6,006
Due from one through five years	11,189	11,828	14,398	15,204
Due from six through ten years	7,754	8,064	9,337	9,711
Due from eleven through twenty years	1,687	1,667	805	762
Total	\$26,369	\$27,355	\$30,454	\$31,683

The unrealized gains and losses on investment securities at September 30, 2015, and at December 31, 2014, were as follows:

	September 30, 2015		December 31, 2014	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
	(Dollars in thousands)			
Municipal bonds	\$1,033	\$ (47)	\$1,279	\$ (50)

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 September 30, 2015, and determined that no other-than-temporary market value impairment exists.

4. 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, 2015:

	Weighted Average Life (Years)	September 30, 2015		
		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		