

WEYCO GROUP INC
Form 10-Q
August 08, 2018

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, 2018

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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 July 31, 2018, there were 10,160,124 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)**

| | June 30, 2018 | December 31, 2017 |
|---|-------------------------------|----------------------|
| | (Dollars in thousands) | |
| ASSETS: | | |
| Cash and cash equivalents | \$ 23,998 | \$ 23,453 |
| Marketable securities, at amortized cost | 8,781 | 5,970 |
| Accounts receivable, net | 37,879 | 49,451 |
| Income tax receivable | 1,901 | 669 |
| Inventories | 56,530 | 60,270 |
| Prepaid expenses and other current assets | 3,413 | 5,770 |
| Total current assets | 132,502 | 145,583 |
| Marketable securities, at amortized cost | 17,421 | 17,669 |
| Deferred income tax benefits | 746 | 750 |
| Property, plant and equipment, net | 30,030 | 31,643 |
| Goodwill | 11,112 | 11,112 |
| Trademarks | 32,978 | 32,978 |
| Other assets | 23,019 | 23,097 |
| Total assets | \$ 247,808 | \$ 262,832 |
| LIABILITIES AND EQUITY: | | |
| Accounts payable | \$ 5,878 | \$ 8,905 |
| Dividend payable | - | 2,228 |

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| | | |
|--------------------------------------|------------|------------|
| Accrued liabilities | 10,520 | 14,031 |
| Total current liabilities | 16,398 | 25,164 |
| Deferred income tax liabilities | 2,990 | 2,069 |
| Long-term pension liability | 24,592 | 27,766 |
| Other long-term liabilities | 1,792 | 2,174 |
| Total liabilities | 45,772 | 57,173 |
| Common stock | 10,160 | 10,162 |
| Capital in excess of par value | 59,928 | 55,884 |
| Reinvested earnings | 143,921 | 150,350 |
| Accumulated other comprehensive loss | (18,419) | (17,859) |
| Total Weyco Group, Inc. equity | 195,590 | 198,537 |
| Noncontrolling interest | 6,446 | 7,122 |
| Total equity | 202,036 | 205,659 |
| Total liabilities and equity | \$ 247,808 | \$ 262,832 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|-----------|---------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | | |
| Net sales | \$ 60,888 | \$ 57,453 | \$ 130,414 | \$ 126,573 |
| Cost of sales | 37,182 | 35,363 | 80,083 | 79,255 |
| Gross earnings | 23,706 | 22,090 | 50,331 | 47,318 |
| Selling and administrative expenses | 21,759 | 20,200 | 44,817 | 41,969 |
| Earnings from operations | 1,947 | 1,890 | 5,514 | 5,349 |
| Interest income | 254 | 200 | 487 | 379 |
| Interest expense | - | - | - | (7) |
| Other expense, net | (176) | (55) | (219) | (190) |
| Earnings before provision for income taxes | 2,025 | 2,035 | 5,782 | 5,531 |
| Provision for income taxes | 502 | 732 | 1,443 | 2,113 |
| Net earnings | 1,523 | 1,303 | 4,339 | 3,418 |
| Net (loss) earnings attributable to noncontrolling interest | (103) | 46 | (274) | (56) |
| Net earnings attributable to Weyco Group, Inc. | \$ 1,626 | \$ 1,257 | \$ 4,613 | \$ 3,474 |
| Weighted average shares outstanding | | | | |
| Basic | 10,214 | 10,305 | 10,194 | 10,370 |
| Diluted | 10,505 | 10,368 | 10,433 | 10,433 |
| Earnings per share | | | | |
| Basic | \$ 0.16 | \$ 0.12 | \$ 0.45 | \$ 0.34 |
| Diluted | \$ 0.15 | \$ 0.12 | \$ 0.44 | \$ 0.33 |
| Cash dividends declared (per share) | \$ 0.23 | \$ 0.22 | \$ 0.45 | \$ 0.43 |
| Comprehensive income | \$ 650 | \$ 1,924 | \$ 3,465 | \$ 4,799 |
| Comprehensive (loss) income attributable to noncontrolling interest | (383) | 80 | (588) | 246 |
| Comprehensive income attributable to Weyco Group, Inc. | \$ 1,033 | \$ 1,844 | \$ 4,053 | \$ 4,553 |

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, | |
|--|---------------------------|-----------|
| | 2018 | 2017 |
| | (Dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 4,339 | \$ 3,418 |
| Adjustments to reconcile net earnings to net cash provided by operating activities - | | |
| Depreciation | 1,905 | 1,995 |
| Amortization | 171 | 186 |
| Bad debt expense | 160 | 291 |
| Deferred income taxes | 841 | 1,434 |
| Net foreign currency transaction losses (gains) | 105 | (15) |
| Stock-based compensation | 805 | 779 |
| Pension contribution | (3,000) | (4,000) |
| Pension expense | 426 | 497 |
| Increase in cash surrender value of life insurance | (115) | (115) |
| Changes in operating assets and liabilities - | | |
| Accounts receivable | 11,464 | 13,179 |
| Inventories | 3,714 | 9,041 |
| Prepaid expenses and other assets | 2,527 | 2,831 |
| Accounts payable | (3,008) | (6,927) |
| Accrued liabilities and other | (5,213) | 241 |
| Accrued income taxes | (1,111) | (2,092) |
| Net cash provided by operating activities | 14,010 | 20,743 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities | (5,961) | (7,433) |
| Proceeds from maturities of marketable securities | 3,375 | 3,015 |
| Life insurance premiums paid | (155) | (155) |
| Purchases of property, plant and equipment | (491) | (772) |
| Net cash used for investing activities | (3,232) | (5,345) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | (6,836) | (6,643) |
| Cash dividends paid to noncontrolling interest of subsidiary | (88) | (204) |
| Shares purchased and retired | (6,589) | (6,843) |
| Net proceeds from stock options exercised | 4,048 | 438 |
| Taxes paid related to the net share settlement of equity awards | (611) | - |
| Proceeds from bank borrowings | - | 6,816 |
| Repayments of bank borrowings | - | (11,084) |
| Net cash used for financing activities | (10,076) | (17,520) |

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| | | | |
|--|-----------|---|-------------|
| Effect of exchange rate changes on cash and cash equivalents | (157 |) | 266 |
| Net increase (decrease) in cash and cash equivalents | \$ 545 | | \$ (1,856) |
| CASH AND CASH EQUIVALENTS at beginning of period | 23,453 | | 13,710 |
| CASH AND CASH EQUIVALENTS at end of period | \$ 23,998 | | \$ 11,854 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Income taxes paid, net of refunds | \$ 1,927 | | \$ 2,805 |
| Interest paid | \$ - | | \$ 7 |

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 six months ended June 30, 2018, may not necessarily be indicative of the results for the full year.

2. New Accounting Pronouncements

On January 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue - Revenue from Contracts with Customers* and all related amendments, which were together codified into Accounting Standards Codification (ASC) 606. This guidance was adopted using the modified retrospective method. The adoption of ASC 606 did not have a material impact on the Company's financial position or results of operations. The Company did not restate prior period information for the effects of the new standard, nor did the Company adjust the opening balance of retained earnings to account for the implementation of the new requirements of this standard. The Company does not expect the adoption of this guidance will have a material effect on the results of operations in future periods. See Note 3.

3. Revenue Recognition

The Company's revenue contracts represent a single performance obligation to sell its products to its customers. Sales are recorded at the time control of the products is transferred to customers in an amount that reflects the consideration the Company expects to receive in exchange for the products. All revenue is recorded net of estimated allowances for returns and discounts; these revenue offsets are accrued at the time of the sale. Generally, payments from customers are received within 90 days following the sale. The Company's contracts with customers do not have significant financing components or significant prepayments from customers, and there is no non-cash consideration. The Company does not have unbilled revenue, and there are no contract assets or contract liabilities.

4. Reclassifications

Certain prior year amounts in the Consolidated Condensed Statements of Cash Flows (Unaudited) were reclassified to conform to current year presentation. These reclassifications had no effect on previously reported net earnings or equity.

5. Earnings Per Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|---|----------|---------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | | |
| Numerator: | | | | |
| Net earnings attributable to Weyco Group, Inc. | \$ 1,626 | \$ 1,257 | \$ 4,613 | \$ 3,474 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 10,214 | 10,305 | 10,194 | 10,370 |
| Effect of dilutive securities: | | | | |
| Employee stock-based awards | 291 | 63 | 239 | 63 |
| Diluted weighted average shares outstanding | 10,505 | 10,368 | 10,433 | 10,433 |
| Basic earnings per share | \$ 0.16 | \$ 0.12 | \$ 0.45 | \$ 0.34 |
| Diluted earnings per share | \$ 0.15 | \$ 0.12 | \$ 0.44 | \$ 0.33 |

There were no anti-dilutive stock options for the three months ended June 30, 2018. Diluted weighted average shares outstanding for the six months ended June 30, 2018, exclude anti-dilutive stock options totaling approximately 207,000 shares of common stock at a weighted average price of \$27.94. Diluted weighted average shares outstanding for the three months ended June 30, 2017, exclude anti-dilutive stock options totaling approximately 837,000 shares of common stock at a weighted average price of \$26.85. Diluted weighted average shares outstanding for the six months ended June 30, 2017, exclude anti-dilutive stock options totaling approximately 706,000 shares of common stock at a weighted average price of \$27.15.

6. Investments

As noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, all of the Company's marketable securities are classified as held-to-maturity securities and reported at amortized cost pursuant to Accounting Standards Codification 320, *Investments – Debt and Equity Securities*, as the Company has the intent and ability to hold all investments to maturity.

Below is a summary of the amortized cost and estimated market values of the Company's marketable securities as of June 30, 2018, and December 31, 2017.

| | June 30, 2018 | | December 31, 2017 | |
|--------------------------------------|-------------------------------|--------------|-------------------|--------------|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| | (Dollars in thousands) | | | |
| Municipal bonds: | | | | |
| Current | \$8,781 | \$8,783 | \$5,970 | \$5,977 |
| Due from one through five years | 9,550 | 9,719 | 10,260 | 10,536 |
| Due from six through ten years | 5,261 | 5,332 | 5,005 | 5,197 |
| Due from eleven through twenty years | 2,610 | 2,675 | 2,404 | 2,539 |
| Total | \$26,202 | \$26,509 | \$23,639 | \$24,249 |

The unrealized gains and losses on marketable securities at June 30, 2018, and at December 31, 2017, were as follows:

| | June 30, 2018 | | December 31, 2017 | |
|-----------------|-------------------------------|-------------------|-------------------|-------------------|
| | Unrealized Gains | Unrealized Losses | Unrealized Gains | Unrealized Losses |
| | (Dollars in thousands) | | | |
| Municipal bonds | \$394 | \$ (87) | \$ 634 | \$ (24) |

The estimated market values provided are level 2 valuations as defined by Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* ("ASC 820"). The Company reviewed its portfolio of investments as of June 30, 2018 and determined that no other-than-temporary market value impairment exists.

7. Intangible Assets

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

| | June 30, 2018 | | | December 31, 2017 | | |
|--|--|---------------------------|-----------|--|---------------------------|-----------|
| | Gross Carrying Amount (Dollars in thousands) | Accumulated Impairment | Net | Gross Carrying Amount (Dollars in thousands) | Accumulated Impairment | Net |
| Indefinite-lived intangible assets | | | | | | |
| Goodwill | \$ 11,112 | \$ - | \$ 11,112 | \$ 11,112 | \$ - | \$ 11,112 |
| Trademarks | 34,748 | (1,770) | 32,978 | 34,748 | (1,770) | 32,978 |
| Total indefinite-lived intangible assets | \$ 45,860 | \$ (1,770) | \$ 44,090 | \$ 45,860 | \$ (1,770) | \$ 44,090 |

The Company's amortizable intangible assets as recorded in the Consolidated Condensed Balance Sheets (Unaudited) consisted of the following:

| | Weighted Average Life (Years) | June 30, 2018 | | | December 31, 2017 | | |
|-------------------------------------|-------------------------------------|--|---|---------|--|---|---------|
| | | Gross Carrying Amount (Dollars in thousands) | Accumulated Amortization (Dollars in thousands) | Net | Gross Carrying Amount (Dollars in thousands) | Accumulated Amortization (Dollars in thousands) | Net |
| Amortizable intangible assets | | | | | | | |
| Customer relationships | 15 | \$3,500 | \$ (1,711) | \$1,789 | \$3,500 | \$ (1,594) | \$1,906 |
| Total amortizable intangible assets | | \$3,500 | \$ (1,711) | \$1,789 | \$3,500 | \$ (1,594) | \$1,906 |

Amortization expense related to the intangible assets was approximately \$58,000 in both the second quarters of 2018 and 2017. For the six months ended June 30, amortization expense related to the intangible assets was approximately \$117,000 in both 2018 and in 2017. The amortizable intangible assets are included within other assets in the Consolidated Condensed Balance Sheets. (Unaudited).

8. 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 the Company's segments based on earnings from operations. Therefore, 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 six months ended June 30, 2018 and 2017, was as follows:

| Three Months Ended June 30, | Wholesale | Retail | Other | Total |
|--------------------------------|------------------------|---------|----------|----------|
| | (Dollars in thousands) | | | |
| 2018 | | | | |
| Product sales | \$45,167 | \$4,624 | \$10,625 | \$60,416 |
| Licensing revenues | 472 | - | - | 472 |
| Net sales | \$45,639 | \$4,624 | \$10,625 | \$60,888 |
| Earnings from operations | \$1,748 | \$222 | \$(23) | \$1,947 |

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| | | | | |
|--------------------------|----------|---------|----------|----------|
| 2017 | | | | |
| Product sales | \$41,700 | \$4,758 | \$10,404 | \$56,862 |
| Licensing revenues | 591 | - | - | 591 |
| Net sales | \$42,291 | \$4,758 | \$10,404 | \$57,453 |
| Earnings from operations | \$1,298 | \$184 | \$408 | \$1,890 |

Six Months Ended

| | | | | |
|-------------------------------|-----------|---------|----------|-----------|
| June 30, | Wholesale | Retail | Other | Total |
| (Dollars in thousands) | | | | |
| 2018 | | | | |
| Product sales | \$98,161 | \$9,551 | \$21,436 | \$129,148 |
| Licensing revenues | 1,266 | - | - | 1,266 |
| Net sales | \$99,427 | \$9,551 | \$21,436 | \$130,414 |
| Earnings from operations | \$5,139 | \$428 | \$(53) | \$5,514 |

| | | | | |
|--------------------------|----------|---------|----------|-----------|
| 2017 | | | | |
| Product sales | \$93,849 | \$9,688 | \$21,744 | \$125,281 |
| Licensing revenues | 1,292 | - | - | 1,292 |
| Net sales | \$95,141 | \$9,688 | \$21,744 | \$126,573 |
| Earnings from operations | \$4,464 | \$227 | \$658 | \$5,349 |

9. Employee Retirement Plans

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

| | Three Months | | Six Months Ended June 30, | |
|--------------------------------|-------------------------------|--------|---------------------------|---------|
| | Ended June 30, 2018 | 2017 | 2018 | 2017 |
| | (Dollars in thousands) | | | |
| Service cost | \$ 151 | \$ 142 | \$ 301 | \$ 282 |
| Interest cost | 549 | 555 | 1,098 | 1,103 |
| Expected return on plan assets | (646) | (609) | (1,292) | (1,151) |
| Net amortization and deferral | 159 | 143 | 319 | 263 |
| Net periodic pension cost | \$ 213 | \$ 231 | \$ 426 | \$ 497 |

The components of net periodic pension cost other than the service cost component are included in "other expense, net" in the Consolidated Condensed Statements of Earnings and Comprehensive Income (Unaudited).

The Company made a \$3.0 million pension contribution in the second quarter of 2018. No additional cash contributions are expected for the remainder of 2018.

10. Stock-Based Compensation Plans

During the three and six months ended June 30, 2018, the Company recognized approximately \$454,000 and \$805,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in years 2014 through 2017. During the three and six months ended June 30, 2017, the Company recognized approximately \$410,000 and \$779,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in years 2013 through 2016.

The following table summarizes the Company's stock option activity for the six-month period ended June 30, 2018:

| | Weighted Average | Weighted Average Remaining | Aggregate |
|--|---------------------|----------------------------------|-----------|
|--|---------------------|----------------------------------|-----------|

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| | Shares | Exercise Price | Contractual Term (Years) | Intrinsic Value* |
|----------------------------------|------------|----------------|--------------------------|------------------|
| Outstanding at December 31, 2017 | 1,502,493 | \$ 26.57 | | |
| Exercised | (352,566) | \$ 25.82 | | |
| Forfeited or expired | (11,075) | \$ 26.57 | | |
| Outstanding at June 30, 2018 | 1,138,852 | \$ 26.80 | 4.0 | \$10,936,000 |
| Exercisable at June 30, 2018 | 524,690 | \$ 27.10 | 2.3 | \$4,878,000 |

* The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between the market value of the Company's stock on June 29, 2018, the last trading day of the quarter, of \$36.40 and the exercise price multiplied by the number of in-the-money outstanding and exercisable stock options.

The following table summarizes the Company's stock option exercise activity for the three and six months ended June 30, 2018 and 2017:

| | Three Months | | Six Months Ended June 30, | |
|---|-------------------------------|-------|---------------------------|--------|
| | Ended June 2018 | 2017 | 2018 | 2017 |
| | (Dollars in thousands) | | | |
| Total intrinsic value of stock options exercised | \$2,549 | \$ 23 | \$ 3,050 | \$ 64 |
| Net cash proceeds from stock option exercises | \$1,164 | \$ 82 | \$ 4,048 | \$ 438 |
| Income tax benefit from the exercise of stock options | \$663 | \$ 10 | \$ 793 | \$ 25 |

The following table summarizes the Company's restricted stock award activity for the six-month period ended June 30, 2018:

| | Shares of Restricted Stock | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value* |
|---------------------------------|----------------------------------|---|---|----------------------------------|
| Non-vested at December 31, 2017 | 66,050 | \$ 26.79 | | |
| Issued | 2,439 | \$ 35.55 | | |
| Vested | (2,439) | \$ 35.55 | | |
| Forfeited | (1,675) | 26.59 | | |
| Non-vested at June 30, 2018 | 64,375 | \$ 26.80 | 2.3 | \$2,343,000 |

* The aggregate intrinsic value of non-vested restricted stock was calculated using the market value of the Company's stock on June 29, 2018 of \$36.40 multiplied by the number of non-vested restricted shares outstanding.

11. Short-Term Borrowings

At June 30, 2018, the Company had a \$60 million unsecured revolving line of credit with a bank expiring November 4, 2018. The line of credit bears interest at the London Interbank Offered Rate ("LIBOR") plus 0.75%. At June 30, 2018, there were no amounts outstanding on the line of credit. There were also no amounts outstanding on the line of credit to date in 2018.

12. Financial Instruments

At June 30, 2018, the Company's majority-owned subsidiary, Florsheim Australia, had foreign exchange contracts outstanding to buy \$2.5 million U.S. dollars at a price of approximately \$3.1 million Australian dollars. Based on quarter-end exchange rates, there were no significant unrealized gains or losses on the outstanding contracts.

The Company determines the fair value of foreign exchange contracts based on the difference between the foreign currency contract rates and the widely available foreign currency rates as of the measurement date. The fair value measurements are based on observable market transactions, and thus represent a level 2 valuation as defined by ASC 820.

13. Comprehensive Income

Comprehensive income for the three and six months ended June 30, 2018 and 2017, was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|---------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in thousands) | | | |
| Net earnings | \$1,523 | \$1,303 | \$ 4,339 | \$ 3,418 |
| Foreign currency translation adjustments | (991) | 533 | (1,110) | 1,220 |
| Pension liability, net of tax of \$42, \$56, \$83, and \$102, respectively | 118 | 88 | 236 | 161 |
| Total comprehensive income | \$650 | \$1,924 | \$ 3,465 | \$ 4,799 |

The components of accumulated other comprehensive loss as recorded on the Consolidated Condensed Balance Sheets (Unaudited) were as follows:

| | June 30, 2018 | December 31, 2017 |
|--|-------------------------------|----------------------|
| | (Dollars in thousands) | |
| Foreign currency translation adjustments | \$ (4,982) | \$ (4,186) |
| Pension liability, net of tax | (13,437) | (13,673) |
| Total accumulated other comprehensive loss | \$ (18,419) | \$ (17,859) |

The following presents a tabular disclosure about changes in accumulated other comprehensive loss during the six months ended June 30, 2018:

| | Foreign Currency Translation Adjustments | Defined Benefit Pension Items | Total |
|--|---|--|------------|
| Beginning balance, December 31, 2017 | \$ (4,186) | \$(13,673) | \$(17,859) |
| Other comprehensive loss before reclassifications | (796) | - | (796) |
| Amounts reclassified from accumulated other comprehensive loss | - | 236 | 236 |
| Net current period other comprehensive (loss) income | (796) | 236 | (560) |
| Ending balance, June 30, 2018 | \$ (4,982) | \$(13,437) | \$(18,419) |

The following presents a tabular disclosure about reclassification adjustments out of accumulated other comprehensive loss during the six months ended June 30, 2018:

| | Amounts reclassified from accumulated other comprehensive loss for the six months ended June 30, 2018 | Affected line item in the statement where net income is presented |
|---|---|---|
| Amortization of defined benefit pension items | | |
| Prior service cost | \$ (31 |)(¹) Other expense, net |
| Actuarial losses | 350 | (¹) Other expense, net |
| Total before tax | 319 | |
| Tax benefit | (83 |) |
| Net of tax | \$ 236 | |

(1)These amounts were included in net periodic pension cost. See Note 9 for additional details.

14. Equity

The following table reconciles the Company's equity for the six months ended June 30, 2018:

| Capital in | Accumulated Other |
|------------|----------------------|
|------------|----------------------|

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| | Common Stock | Excess of Par Value | Reinvested Earnings | Comprehensive Loss | Noncontrolling Interest |
|--|-----------------|---------------------------|------------------------|-----------------------|----------------------------|
| (Dollars in thousands) | | | | | |
| Balance, December 31, 2017 | \$10,162 | \$ 55,884 | \$ 150,350 | \$ (17,859) | \$ 7,122 |
| Net earnings | - | - | 4,613 | | (274) |
| Foreign currency translation adjustments | - | - | - | (796) | (314) |
| Pension liability adjustment, net of tax | - | - | - | 236 | - |
| Cash dividends declared | - | - | (4,652) | - | - |
| Cash dividends paid to noncontrolling interest | - | - | - | - | (88) |
| Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price | 197 | 3,239 | - | - | - |
| Issuance of restricted stock | 2 | (2) | - | - | - |
| Restricted stock forfeited | (2) | 2 | - | - | - |
| Stock-based compensation expense | - | 805 | - | - | - |
| Shares purchased and retired | (199) | - | (6,390) | - | - |
| Balance, June 30, 2018 | \$10,160 | \$ 59,928 | \$ 143,921 | \$ (18,419) | \$ 6,446 |

15. Subsequent Event

On July 31, 2018, David Venner, Director of Seraneuse Pty Ltd (“Seraneuse”), the minority interest shareholder of Florsheim Australia Pty Ltd, provided notice that Seraneuse will tender its shares, representing 45% equity in Florsheim Australia, to the Company, in accordance with the Shareholders Agreement dated January 23, 2009. Accordingly, the Company will purchase the minority interest of Florsheim Australia for \$3.8 million on August 30, 2018.

The Shareholders Agreement referenced above was filed as Exhibit 10.2 to Form 10-K for the Year Ended December 31, 2008.

EXECUTIVE OVERVIEW

Second Quarter Highlights

Consolidated net sales for the second quarter of 2018 were \$60.9 million, up 6% compared to last year's second quarter net sales of \$57.5 million. Earnings from operations increased \$57,000, or 3%, for the quarter, compared to the second quarter of 2017. Consolidated net earnings attributable to Weyco Group, Inc. rose 29% to \$1.6 million in the second quarter of 2018, from \$1.3 million in last year's second quarter. Diluted earnings per share were \$0.15 per share in the second quarter of 2018 and \$0.12 per share in the second quarter of 2017.

The majority of the increase in consolidated net sales came from the Company's wholesale segment. Wholesale net sales increased \$3.3 million for the quarter, compared to the same period last year, due mainly to higher sales of the Florsheim brand.

Consolidated earnings from operations were up 3% for the quarter. While wholesale earnings from operations were up \$450,000, due mainly to higher sales and gross margins, this increase was mostly offset by lower earnings from operations at Florsheim Australia, resulting mainly from lower sales.

Consolidated net earnings attributable to Weyco Group, Inc. and diluted earnings per share were up for the quarter. Net earnings were positively impacted by the lower U.S. federal tax rate of 21% effective January 1, 2018, versus 35% in 2017, resulting from the passing of the Tax Cuts and Jobs Act.

Year-to-Date Highlights

Consolidated net sales for the first half of 2018 were \$130.4 million, up 3% from net sales of \$126.6 million in the first half of 2017. Earnings from operations were \$5.5 million in the first six months of 2018, up 3% compared to \$5.3 million in the same period last year. Consolidated net earnings attributable to Weyco Group, Inc. were \$4.6 million in the first six months of 2018, up 33% compared to \$3.5 million in the same period last year. Diluted earnings per share to date in 2018 were \$0.44 per share, versus \$0.33 per share in the same period of 2017.

The increase in consolidated net sales was due to higher sales in the wholesale segment. Wholesale net sales increased \$4.3 million in the first six months of 2018, compared to the same period last year, primarily due to higher sales of the Florsheim brand.

The increase in consolidated earnings from operations was due to higher operating earnings in the wholesale and retail segments. Earnings from operations in the wholesale segment were up \$675,000, due to higher sales and gross margins. Earnings from operations in the retail segment were up \$201,000, due to the benefit of closing underperforming stores since last year, and from higher operating earnings of the Company's internet businesses. These increases were largely offset by lower operating earnings at Florsheim Australia, resulting mainly from lower sales.

Financial Position Highlights

At June 30, 2018, cash and marketable securities totaled \$50.2 million and there was no debt outstanding on the Company's revolving line of credit. At December 31, 2017, cash and marketable securities totaled \$47.1 million and there was no debt outstanding on the line of credit. During the first six months of 2018, the Company generated \$14.0 million of cash from operations. The Company paid dividends of \$6.9 million and spent \$6.6 million on purchases of Company stock. The Company also had \$491,000 of capital expenditures.

SEGMENT ANALYSIS

Net sales and earnings from operations for the Company's segments in the three and six months ended June 30, 2018 and 2017, were as follows:

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| | Three Months Ended June 30, | | | % | Six Months Ended June 30, | | | % |
|---------------------------------|-------------------------------|----------|--------|---|---------------------------|------------|--------|---|
| | 2018 | 2017 | Change | | 2018 | 2017 | Change | |
| | (Dollars in thousands) | | | | | | | |
| Net Sales | | | | | | | | |
| North American Wholesale | \$45,639 | \$42,291 | 8 | % | \$ 99,427 | \$ 95,141 | 5 | % |
| North American Retail | 4,624 | 4,758 | -3 | % | 9,551 | 9,688 | -1 | % |
| Other | 10,625 | 10,404 | 2 | % | 21,436 | 21,744 | -1 | % |
| Total | \$60,888 | \$57,453 | 6 | % | \$ 130,414 | \$ 126,573 | 3 | % |
| Earnings from Operations | | | | | | | | |
| North American Wholesale | \$1,748 | \$1,298 | 35 | % | \$ 5,139 | \$ 4,464 | 15 | % |
| North American Retail | 222 | 184 | 21 | % | 428 | 227 | 89 | % |
| Other | (23) | 408 | -106 | % | (53) | 658 | -108 | % |
| Total | \$1,947 | \$1,890 | 3 | % | \$ 5,514 | \$ 5,349 | 3 | % |

North American Wholesale SegmentNet Sales

Net sales in the Company's North American wholesale segment for the three and six months ended June 30, 2018 and 2017, were as follows:

North American Wholesale Segment Net Sales

| | Three Months Ended June 30, | | | % | Six Months Ended June 30, | | | % |
|--|-----------------------------|-----------|--------|---|---------------------------|-----------|--------|---|
| | 2018 | 2017 | Change | | 2018 | 2017 | Change | |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| North American Net Sales | | | | | | | | |
| Stacy Adams | \$ 15,561 | \$ 15,827 | -2 | % | \$ 35,049 | \$ 35,146 | 0 | % |
| Nunn Bush | 11,498 | 11,082 | 4 | % | 23,852 | 24,827 | -4 | % |
| Florsheim | 15,171 | 11,634 | 30 | % | 30,225 | 24,093 | 25 | % |
| BOGS/Rafters | 2,888 | 2,726 | 6 | % | 8,903 | 8,883 | 0 | % |
| Other | 49 | 431 | -89 | % | 132 | 900 | -85 | % |
| Total North American Wholesale | \$ 45,167 | \$ 41,700 | 8 | % | \$ 98,161 | \$ 93,849 | 5 | % |
| Licensing | 472 | 591 | -20 | % | 1,266 | 1,292 | -2 | % |
| Total North American Wholesale Segment | \$ 45,639 | \$ 42,291 | 8 | % | \$ 99,427 | \$ 95,141 | 5 | % |

Net sales of the Florsheim brand were up for the quarter and year-to-date periods, driven by strong sales to national shoe chains and department stores. While Nunn Bush sales were up for the quarter, they were down for the first half of 2018, compared to the same period of 2017, reflecting reduced sales in the national shoe chain and department store trade channels. Other net sales decreased in 2018, due to a wind down of operations of the Umi brand.

Licensing revenues consist of royalties earned on the sales of branded apparel, accessories and specialty footwear in the United States and on branded footwear in Mexico and certain overseas markets.

Earnings from Operations

Gross earnings for the North American wholesale segment were 33.3% of net sales in the second quarter of 2018, and 31.3% of net sales in last year's second quarter. For the six months ended June 30, wholesale gross earnings were 33.2% of net sales in 2018, compared to 31.0% of net sales in 2017. Wholesale earnings from operations were \$1.7 million for the three months ended June 30, 2018, up 35% compared to \$1.3 million in the same period last year. For the six months ended June 30, 2018, earnings from operations for the wholesale segment were \$5.1 million, up 15% from \$4.5 million in the same period last year. The increases in wholesale earnings from operations for the quarter and year-to-date periods were primarily due to higher sales and gross margins.

The Company's cost of sales does not include distribution costs (e.g., receiving, inspection, warehousing, shipping, and handling costs). Wholesale distribution costs were \$3.1 million for the second quarter of 2018 versus \$2.8 million for the same period of 2017. For the six-month periods ended June 30, 2018 and 2017, wholesale distribution costs were \$6.2 million and \$5.8 million, respectively. These costs were included in selling and administrative expenses. The Company's gross earnings may not be comparable to other companies, as some companies may include distribution costs in cost of sales.

North American wholesale segment selling and administrative expenses include, and are primarily related to, distribution costs, salaries and commissions, advertising costs, employee benefit costs, and depreciation. Wholesale selling and administrative expenses were \$13.5 million, or 30% of net sales, in the second quarter of 2018, compared to \$12.0 million, or 28% of net sales, in the second quarter of 2017. For the six months ended June 30, wholesale selling and administrative expenses were \$27.8 million versus \$25.0 million in 2017. As a percent of net sales, wholesale selling and administrative expenses were 28% of net sales in the first half of 2018, and 26% of net sales in the first half of 2017.

North American Retail Segment

Net Sales

Net sales in the Company's retail segment were down 3% for the quarter and 1% for the first half of 2018, compared to the same periods last year. Same store sales, which include U.S. internet sales were up 2% for the quarter, and 4% for the first six months of 2018, compared to the same periods last year, primarily due to increased sales on the Company's websites. There were two fewer domestic brick and mortar stores operating at June 30, 2018 than there were at June 30, 2017.

Earnings from Operations

North American retail segment gross earnings were 65.8% of net sales in the second quarter of 2018, up from 64.9% of net sales in last year's second quarter. For the six months ended June 30, retail gross earnings were 65.2% of net sales in 2018, compared to 64.7% of net sales in 2017.

Earnings from operations in the North American retail segment improved \$38,000 for the quarter, or 21%, compared to the second quarter of 2017, mainly due to the benefit of closing unprofitable stores since last year. For the year-to-date period, retail earnings from operations were up \$201,000 in 2018, compared to the first half of 2017, partially due to the benefit of closing unprofitable stores. In addition, the Company's internet businesses had higher operating earnings this year, as a result of higher sales volumes. Selling and administrative expenses for the retail segment include, and are primarily related to, rent and occupancy costs, employee costs, advertising expense and freight. Retail selling and administrative expenses as a percent of net sales were flat at 61% for the three-months ended June 30, 2018 and 2017. For the six months ended June 30, retail selling and administrative expenses as a percent of net sales were 61% in 2018 and 62% in 2017.

Other

The Company's other net sales were \$10.6 million in the second quarter of 2018, up 2% compared to \$10.4 million in 2017. This increase was due to higher net sales at Florsheim Europe, partially offset by lower net sales at Florsheim Australia. For the six months ended June 30, 2018, other net sales were \$21.4 million, down 1% from \$21.7 million in the same period last year, mainly due to lower net sales at Florsheim Australia. Florsheim Australia's net sales were down 2% and 4% for the quarter and year-to-date periods, respectively, due to lower sales in both its retail and

wholesale businesses. Sales in the Australian and Pacific Rim markets have been declining, as these businesses are facing similar challenges at retail that the Company has experienced in the U.S.

Collectively, Florsheim Australia and Florsheim Europe had operating losses of \$23,000 in the second quarter of 2018, compared to operating earnings of \$407,000 in the second quarter of 2017. For the six months ended June 30, 2018, Florsheim Australia and Florsheim Europe had operating losses totaling \$53,000, compared to operating earnings of \$658,000 in the same period last year. The earnings decline for the quarter and first half of 2018 was mainly due to lower operating earnings in Florsheim Australia's wholesale and retail businesses, resulting from lower sales.

Other income and expense

Interest income for the three and six months ended June 30, 2018, rose \$54,000 and \$108,000, respectively, due mainly due to additional interest earned on higher cash balances this year. The Company's effective tax rate for the quarter was 24.8%, compared to 36.0% for the same period of 2017. For the six months ended June 30, the Company's effective tax rate was 25.0% in 2018 versus 38.2% in 2017. This year's effective tax rate was down due to the lower U.S. federal tax rate of 21% effective January 1, 2018, versus 35% in 2017, which resulted from the passing of the Tax Cuts and Jobs Act.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are its cash, short-term marketable securities and its revolving line of credit. The Company generated \$14.0 million of cash from operating activities during the first six months of 2018, compared to \$20.7 million in the same period of 2017. The decrease between years was primarily due to changes in operating assets and liabilities, principally inventory.

The Company paid cash dividends of \$6.9 million and \$6.8 million during the six months ended June 30, 2018 and 2017, respectively.

The Company continues to repurchase its common stock under its share repurchase program when the Company believes market conditions are favorable. During the first half of 2018, the Company repurchased 199,500 shares at a total cost of \$6.6 million. As of June 30, 2018, the Company had approximately 817,000 shares available under its previously announced stock repurchase program. See Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds" below for more information.

Capital expenditures were \$491,000 in the first six months of 2018. Management estimates that annual capital expenditures for 2018 will be between \$1.5 million and \$2.5 million.

At June 30, 2018, the Company had a \$60 million unsecured revolving line of credit with a bank expiring November 4, 2018. The line of credit bears interest at LIBOR plus 0.75%. There were no amounts outstanding on the line of credit during the first half of 2018.

At June 30, 2018, approximately \$1.6 million of cash and cash equivalents was held by the Company's foreign subsidiaries.

On July 31, 2018, David Venner, Director of Seraneuse Pty Ltd ("Seraneuse"), the minority interest shareholder of Florsheim Australia Pty Ltd, provided notice that Seraneuse will tender its shares, representing 45% equity in Florsheim Australia, to the Company, in accordance with the Shareholders Agreement dated January 23, 2009. Accordingly, the Company will purchase the minority interest of Florsheim Australia for \$3.8 million on August 30, 2018.

The Company will continue to evaluate the best uses for its available liquidity, including, among other uses, capital expenditures, stock repurchases and additional acquisitions.

The Company believes that available cash and marketable securities, cash provided by operations, and available borrowing facilities will provide adequate support for the cash needs of the business for at least one year, although there can be no assurances.

COMMITMENTS

There were no material changes to the Company's contractual obligations during the six months ended June 30, 2018, from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to quantitative and qualitative disclosures about market risk from those reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely basis. The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in bringing to their attention on a timely basis material information relating to the Company required to be included in the Company's periodic filings under the Exchange Act. Such officers have also concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in accumulating and communicating information in a timely manner, allowing timely decisions regarding required disclosures.

There have been no significant changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None

15

Item 1A. Risk Factors.

There have been no material changes to the risk factors affecting the Company from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below presents information pursuant to Item 703(a) of Regulation S-K regarding the purchase of the Company's common stock by the Company in the three-month period ended June 30, 2018.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of the Publicly Announced Program | Maximum Number of Shares that May Yet Be Purchased Under the Program ⁽¹⁾ |
|----------------------|----------------------------------|------------------------------|--|---|
| 4/1/2018 - 4/30/2018 | - | \$ - | - | 1,016,636 |
| 5/1/2018 - 5/31/2018 | - | \$ - | - | 1,016,636 |
| 6/1/2018 - 6/30/2018 | 199,500 | \$ 33.03 | 199,500 | 817,136 |
| Total | 199,500 | \$ 33.03 | 199,500 | |

In 1998 the Company's stock repurchase program was established. On several occasions since the program's inception, the Board of Directors has extended the number of shares authorized for repurchase under the program.

In total, 7.5 million shares have been authorized for repurchase.

Item 6. Exhibits.

See the Exhibit Index included herewith for a listing of exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WEYCO GROUP, INC.

Dated: August 8, 2018 /s/ John F. Wittkowske
John F. Wittkowske
Senior Vice President and Chief Financial Officer

WEYCO GROUP, INC.

(THE “REGISTRANT”)

(COMMISSION FILE NO. 0-9068)

EXHIBIT INDEX

TO

CURRENT REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED June 30, 2018

| Exhibit | Description | Incorporation Herein By Reference To | Filed Herewith |
|----------------|--|---|---------------------------|
| <u>31.1</u> | <u>Certification of Chief Executive Officer</u> | | <u>X</u> |
| <u>31.2</u> | <u>Certification of Chief Financial Officer</u> | | <u>X</u> |
| <u>32</u> | <u>Section 906 Certification of Chief Executive Officer and Chief Financial Officer</u> | | <u>X</u> |
| 101 | The following financial information from Weyco Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets (Unaudited); (ii) Consolidated Condensed Statements of Earnings and Comprehensive Income (Unaudited); (iii) Consolidated Condensed Statements of Cash Flows (Unaudited); and (iv) Notes to Consolidated Condensed Financial Statements, furnished herewith | | X |