

WEYCO GROUP INC  
Form 10-Q  
November 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 September 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.**

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(Exact name of registrant as specified in its charter)

WISCONSIN

(State or other jurisdiction of incorporation or organization)

39-0702200

(I.R.S. Employer Identification No.)

333 W. Estabrook Boulevard

P. O. Box 1188

Milwaukee, Wisconsin 53201

(Address of principal executive offices)

(Zip Code)

(414) 908-1600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant 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

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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 October 31, 2018, there were 10,135,680 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, 2018	December 31, 2017
	(Dollars in thousands)	
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 15,750	\$ 23,453
Marketable securities, at amortized cost	5,098	5,970
Accounts receivable, net	56,797	49,451
Income tax receivable	533	669
Inventories	60,069	60,270
Prepaid expenses and other current assets	3,085	5,770
Total current assets	141,332	145,583
Marketable securities, at amortized cost	18,895	17,669
Deferred income tax benefits	786	750
Property, plant and equipment, net	29,393	31,643
Goodwill	11,112	11,112
Trademarks	32,978	32,978
Other assets	23,192	23,097
Total assets	\$ 257,688	\$ 262,832
<b>LIABILITIES AND EQUITY:</b>		
Short-term borrowings	\$ 8,048	\$ -

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Accounts payable	5,956	8,905
Dividend payable	-	2,228
Accrued liabilities	11,465	14,031
Total current liabilities	25,469	25,164
Deferred income tax liabilities	3,587	2,069
Long-term pension liability	24,422	27,766
Other long-term liabilities	1,634	2,174
Total liabilities	55,112	57,173
Common stock	10,202	10,162
Capital in excess of par value	63,938	55,884
Reinvested earnings	147,874	150,350
Accumulated other comprehensive loss	(19,438 )	(17,859 )
Total Weyco Group, Inc. equity	202,576	198,537
Noncontrolling interest	-	7,122
Total equity	202,576	205,659
Total liabilities and equity	\$257,688	\$ 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Net sales	\$78,375	\$76,906	\$ 208,789	\$ 203,479
Cost of sales	47,984	47,438	128,067	126,693
Gross earnings	30,391	29,468	80,722	76,786
Selling and administrative expenses	22,344	21,666	67,161	63,635
Earnings from operations	8,047	7,802	13,561	13,151
Interest income	252	193	739	572
Interest expense	(10 )	-	(10 )	(7 )
Other expense, net	(195 )	(53 )	(414 )	(243 )
Earnings before provision for income taxes	8,094	7,942	13,876	13,473
Provision for income taxes	1,942	3,022	3,385	5,135
Net earnings	6,152	4,920	10,491	8,338
Net loss attributable to noncontrolling interest	(124 )	(14 )	(398 )	(70 )
Net earnings attributable to Weyco Group, Inc.	\$6,276	\$4,934	\$ 10,889	\$ 8,408
Weighted average shares outstanding				
Basic	10,114	10,160	10,167	10,299
Diluted	10,391	10,218	10,419	10,360
Earnings per share				
Basic	\$0.62	\$0.49	\$ 1.07	\$ 0.82
Diluted	\$0.60	\$0.48	\$ 1.05	\$ 0.81
Cash dividends declared (per share)	\$0.23	\$0.22	\$ 0.68	\$ 0.65
Comprehensive income	\$6,086	\$5,452	\$ 9,551	\$ 10,251
Comprehensive (loss) income attributable to noncontrolling interest	(282 )	25	(870 )	271

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Comprehensive income attributable to Weyco Group, Inc.	\$6,368	\$5,427	\$ 10,421	\$ 9,980
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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,	
	2018	2017
	(Dollars in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 10,491	\$ 8,338
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation	2,842	2,971
Amortization	238	265
Bad debt expense	190	350
Deferred income taxes	1,353	2,192
Net foreign currency transaction losses (gains)	332	(61)
Stock-based compensation	1,149	1,174
Pension contribution	(3,000)	(4,000)
Pension expense	522	746
Increase in cash surrender value of life insurance	(250)	(250)
Changes in operating assets and liabilities -		
Accounts receivable	(7,557)	(5,703)
Inventories	180	12,195
Prepaid expenses and other assets	2,756	3,167
Accounts payable	(2,928)	(6,838)
Accrued liabilities and other	(4,749)	1,849
Accrued income taxes	278	22
Net cash provided by operating activities	1,847	16,417
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of marketable securities	(7,819)	(14,719)
Proceeds from maturities of marketable securities	7,450	10,710
Life insurance premiums paid	(155)	(155)
Purchases of property, plant and equipment	(876)	(1,406)
Net cash used for investing activities	(1,400)	(5,570)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividends paid	(9,213)	(8,877)
Cash dividends paid to noncontrolling interest of subsidiary	(88)	(204)
Payment to acquire noncontrolling interest of subsidiary	(3,740)	-
Shares purchased and retired	(6,589)	(11,621)
Proceeds from stock options exercised	4,308	2,013
Taxes paid related to the net share settlement of equity awards	(699)	(51)
Proceeds from bank borrowings	20,309	20,651
Repayments of bank borrowings	(12,261)	(20,147)



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Net cash used for financing activities	(7,973	)	(18,236	)
Effect of exchange rate changes on cash and cash equivalents	(177	)	383	
Net decrease in cash and cash equivalents	\$ (7,703	)	\$ (7,006	)
CASH AND CASH EQUIVALENTS at beginning of period	23,453		13,710	
CASH AND CASH EQUIVALENTS at end of period	\$ 15,750		\$ 6,704	
SUPPLEMENTAL CASH FLOW INFORMATION:				
Income taxes paid, net of refunds	\$ 1,915		\$ 2,829	
Interest paid	\$ 10		\$ 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 nine months ended September 30, 2018, may not necessarily be indicative of the results for the full year.

**2. Acquisition of Noncontrolling Interest**

During the third quarter of 2018, David Venner, Director of Seraneuse Pty Ltd, the minority interest shareholder of Florsheim Australia Pty Ltd ("Florsheim Australia"), provided notice and tendered to the Company his shares, which represented a 45% equity interest in Florsheim Australia, in accordance with the Shareholders Agreement dated January 23, 2009. The Shareholders Agreement allowed him to tender the shares, at his discretion, anytime on or after January 23, 2014. Accordingly, the Company purchased the minority interest in Florsheim Australia for \$3.7 million on August 30, 2018, and the Company now owns 100% of Florsheim Australia.

This transaction was accounted for in accordance with Accounting Standards Codification (ASC) 810, *Consolidation*, as an equity transaction. Therefore, no gain or loss was recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest was adjusted to zero, and the difference between the fair value of the consideration paid and the balance of the noncontrolling interest as of the acquisition date was recognized within equity.

**3. New Accounting Pronouncements**

Recently Adopted

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 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 4.

Not Yet Adopted

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases* (as amended by ASU 2018-11). The core principle is that a lessee shall recognize a lease liability in its statement of financial position for the present value of all future lease payments. A lessee would also recognize a right-of-use asset representing its right to use the underlying asset for the lease term. Under a new transition method, a reporting entity will apply the new lease requirements at the effective date and continue to report comparative periods presented in the financial statements in the period of adoption under current GAAP. Upon adoption in the first quarter of fiscal 2019, the Company will recognize a right-of-use asset and a lease liability for the present value of future minimum rental payments for its portfolio of operating leases. The Company does not expect a material impact to its results of operations or cash flows related to the adoption of this standard.

#### **4. 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.

#### **5. 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.

## 6. Earnings Per Share

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

	Three Months		Nine Months Ended September 30,	
	Ended September 30, 2018	2017	2018	2017
	(In thousands, except per share amounts)			
Numerator:				
Net earnings attributable to Weyco Group, Inc.	\$ 6,276	\$ 4,934	\$ 10,889	\$ 8,408
Denominator:				
Basic weighted average shares outstanding	10,114	10,160	10,167	10,299
Effect of dilutive securities:				
Employee stock-based awards	277	58	252	61
Diluted weighted average shares outstanding	10,391	10,218	10,419	10,360
Basic earnings per share	\$ 0.62	\$ 0.49	\$ 1.07	\$ 0.82
Diluted earnings per share	\$ 0.60	\$ 0.48	\$ 1.05	\$ 0.81

Diluted weighted average shares outstanding for the three months ended September 30, 2018, exclude anti-dilutive stock-based awards totaling 151,080 shares of common stock at a weighted average price of \$31.58. Diluted weighted average shares outstanding for the nine months ended September 30, 2018, exclude anti-dilutive stock-based awards totaling 178,683 shares of common stock at a weighted average price of \$29.78.

Diluted weighted average shares outstanding for the three months ended September 30, 2017, exclude anti-dilutive stock-based awards totaling 1,116,325 shares of common stock at a weighted average price of \$26.49. Diluted weighted average shares outstanding for the nine months ended September 30, 2017, exclude anti-dilutive stock-based awards totaling 844,036 shares of common stock at a weighted average price of \$26.93.

## 7. 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 ASC 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 September 30, 2018, and December 31, 2017.

	September 30, 2018		December 31, 2017	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	(Dollars in thousands)			
Municipal bonds:				
Current	\$5,098	\$5,104	\$5,970	\$5,977
Due from one through five years	9,916	10,017	10,260	10,536
Due from six through ten years	5,579	5,608	5,005	5,197
Due from eleven through twenty years	3,400	3,408	2,404	2,539
Total	\$23,993	\$24,137	\$23,639	\$24,249

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

September 30, 2018	December 31, 2017	
Unrealized	Unrealized	Unrealized