

WEYCO GROUP INC  
Form 10-Q  
August 09, 2007

FORM 10-Q  
SECURITIES & EXCHANGE COMMISSION  
Washington, D. C. 20549

(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, 2007

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-9068

WEYCO GROUP, INC.

(Exact name of registrant as specified in its charter)

WISCONSIN

(State or other jurisdiction of incorporation or organization)

39-0702200

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

333 W. Estabrook Boulevard

P. O. Box 1188

Milwaukee, Wisconsin 53201

(Address of principal executive offices)

(Zip Code)

(414) 908-1600

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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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, 2007 the following shares were outstanding:

Common Stock, \$1.00 par value

11,553,410 Shares

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PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

WEYCO GROUP, INC. AND SUBSIDIARIESCONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

|   | June 30,<br>2007 | December 31,<br>2006 |
|---|------------------|----------------------|
| <b>ASSETS</b>                                     |                  |                      |
| <b>CURRENT ASSETS:</b>                            |                  |                      |
| Cash and cash equivalents                         | \$ 18,194,616    | \$ 15,314,140        |
| Marketable securities, at amortized cost          | 2,635,225        | 1,600,871            |
| Accounts receivable, net                          | 27,972,690       | 30,641,632           |
| Accrued income tax receivable                     | 869,514          | —                    |
| Inventories                                       | 39,761,617       | 51,000,849           |
| Deferred income tax benefits                      | 745,681          | 949,109              |
| Prepaid expenses and other current assets         | 1,303,632        | 1,715,859            |
| Total current assets                              | 91,482,975       | 101,222,460          |
| MARKETABLE SECURITIES, at amortized cost          | 42,071,175       | 40,361,296           |
| OTHER ASSETS                                      | 8,975,148        | 8,725,346            |
| PLANT AND EQUIPMENT, net                          | 28,384,963       | 28,445,900           |
| TRADEMARK   | 10,867,969       | 10,867,969           |
|   | \$ 181,782,230   | \$ 189,622,971       |
| <b>LIABILITIES &amp; SHAREHOLDERS' INVESTMENT</b> |                  |                      |
| <b>CURRENT LIABILITIES:</b>                       |                  |                      |
| Short-term borrowings                             | \$ 5,552,381     | \$ 10,957,518        |
| Accounts payable                                  | 7,136,861        | 12,398,740           |
| Dividend payable                                  | 1,276,442        | 1,054,354            |
| Accrued liabilities                               | 8,562,366        | 8,430,267            |
| Accrued income taxes                              | —                | 72,907               |
| Total current liabilities                         | 22,528,050       | 32,913,786           |
| LONG-TERM PENSION LIABILITY                       | 6,883,315        | 6,620,842            |
| DEFERRED INCOME TAX LIABILITIES                   | 1,651,854        | 1,915,869            |
| <b>SHAREHOLDERS' INVESTMENT:</b>                  |                  |                      |
| Common stock                                      | 11,366,952       | 9,129,256            |
| Class B common stock                              | 209,158          | 2,585,087            |
| Capital in excess of par value                    | 9,866,309        | 7,576,096            |
| Reinvested earnings                               | 134,715,775      | 134,264,076          |
| Accumulated other comprehensive loss              | (5,439,183)      | (5,382,041)          |
| Total shareholders investment                     | 150,719,011      | 148,172,474          |
|   | \$ 181,782,230   | \$ 189,622,971       |

*The accompanying notes to consolidated condensed financial statements are an integral part of these financial statements.*

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WEYCO GROUP, INC. AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
FOR THE PERIODS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

|   | Three Months ended June 30, |               | Six Months ended June 30, |                |
|---|-----------------------------|---------------|---------------------------|----------------|
|   | 2007                        | 2006          | 2007                      | 2006           |
| NET SALES                                     | \$ 48,370,810               | \$ 45,111,438 | \$ 112,228,867            | \$ 104,399,649 |
| COST OF SALES                                 | 29,677,190                  | 27,651,564    | 70,484,108                | 65,906,885     |
| Gross earnings                                | 18,693,620                  | 17,459,874    | 41,744,759                | 38,492,764     |
| SELLING AND<br>ADMINISTRATIVE EXPENSES        | 12,786,598                  | 11,975,701    | 27,159,425                | 24,802,329     |
| Earnings from operations                      | 5,907,022                   | 5,484,173     | 14,585,334                | 13,690,435     |
| INTEREST INCOME                               | 554,738                     | 517,849       | 1,062,304                 | 979,708        |
| INTEREST EXPENSE                              | (85,109)                    | (118,472)     | (208,144)                 | (297,294)      |
| OTHER INCOME (EXPENSE), net                   | 2,465                       | 8,742         | 4,246                     | 3,472          |
| Earnings before provision for<br>income taxes | 6,379,116                   | 5,892,292     | 15,443,740                | 14,376,321     |
| PROVISION FOR INCOME TAXES                    | 2,330,000                   | 2,250,000     | 5,700,000                 | 5,425,000      |
| Net earnings                                  | \$ 4,049,116                | \$ 3,642,292  | \$ 9,743,740              | \$ 8,951,321   |
| WEIGHTED AVERAGE SHARES<br>OUTSTANDING        |                             |               |                           |                |
| Basic   | 11,566,388                  | 11,612,051    | 11,614,816                | 11,596,254     |
| Diluted                                       | 12,015,212                  | 12,054,041    | 12,067,695                | 12,032,359     |
| EARNINGS PER SHARE                            |                             |               |                           |                |
| Basic   | \$ .35                      | \$ .31        | \$ .84                    | \$ .77         |
| Diluted                                       | \$ .34                      | \$ .30        | \$ .81                    | \$ .74         |
| CASH DIVIDENDS PER SHARE                      | \$ .11                      | \$ .09        | \$ .20                    | \$ .16         |

*The accompanying notes to consolidated condensed financial statements are an integral part of these financial statements.*

WEYCO GROUP, INC. AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

|  | 2007          | 2006          |
|--|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |               |               |
| Net earnings   | \$ 9,743,740  | \$ 8,951,321  |
| Adjustments to reconcile net earnings to net cash provided by operating activities - |               |               |
| Depreciation   | 1,237,342     | 1,077,279     |
| Amortization   | 42,453        | 34,164        |
| Deferred income taxes  | (179,587)     | (131,053)     |
| Stock-based compensation   | 148,394       | —             |
| Pension expense  | 670,338       | 596,502       |
| Loss on sale of assets   | —             | 13            |
| Increase in cash surrender value of life insurance                                   | (259,260)     | (251,070)     |
| Changes in operating assets and liabilities -  |               |               |
| Accounts receivable  | 2,668,942     | 1,760,135     |
| Inventories  | 11,239,232    | 924,141       |
| Prepays and other current assets   | 421,685       | 507,841       |
| Accounts payable   | (5,261,879)   | (5,625,300)   |
| Accrued liabilities and other  | (231,058)     | 384,361       |
| Accrued income taxes   | (915,421)     | (2,233,078)   |
| Net cash provided by operating activities  | 19,324,921    | 5,995,256     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |               |               |
| Purchase of marketable securities  | (2,962,712)   | (14,795,896)  |
| Proceeds from maturities of marketable securities                                    | 176,026       | 1,106,072     |
| Purchase of plant and equipment  | (1,221,255)   | (1,219,386)   |
| Proceeds from sales of plant and equipment   | 62,000        | 996           |
| Net cash used for investing activities   | (3,945,941)   | (14,908,214)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |               |               |
| Cash dividends paid  | (2,108,429)   | (1,620,493)   |
| Shares purchased and retired   | (7,271,213)   | (1,875,593)   |
| Proceeds from stock options exercised  | 1,390,242     | 1,195,489     |
| Repayments under revolving credit agreement  | (5,405,137)   | (34,428)      |
| Income tax benefit from the exercise of stock options                                | 896,033       | 856,848       |
| Net cash used for financing activities   | (12,498,504)  | (1,478,177)   |
| Net increase (decrease) in cash and cash equivalents                                 | 2,880,476     | (10,391,135)  |
| CASH AND CASH EQUIVALENTS at beginning of period                                     | \$ 15,314,140 | \$ 22,780,913 |
| CASH AND CASH EQUIVALENTS at end of period   | \$ 18,194,616 | \$ 12,389,778 |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>   |               |               |
| Income taxes paid, net of refunds  | \$ 5,798,138  | \$ 6,546,302  |
| Interest paid  | \$ 241,331    | \$ 289,612    |

*The accompanying notes to consolidated condensed financial statements are an integral part of these financial statements.*

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## NOTES:

**1. Financial Statements**

In the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial information have been made. The results of operations for the three months or six months ended June 30, 2007, are not necessarily indicative of 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 June 30, |              | Six Months Ended June 30, |              |
|--|-----------------------------|--------------|---------------------------|--------------|
|  | 2007                        | 2006         | 2007                      | 2006         |
| Numerator:                             |                             |              |                           |              |
| Net Earnings                           | \$ 4,049,116                | \$ 3,642,292 | \$ 9,743,740              | \$ 8,951,321 |
| Denominator:                           |                             |              |                           |              |
| Basic weighted average shares          | 11,566,388                  | 11,612,051   | 11,614,816                | 11,596,254   |
| Effect of dilutive securities:         |                             |              |                           |              |
| Employee stock options                 | 448,824                     | 441,990      | 452,879                   | 436,105      |
| Diluted weighted average shares        | 12,015,212                  | 12,054,041   | 12,067,695                | 12,032,359   |
| Basic earnings per share               | \$ .35                      | \$ .31       | \$ .84                    | \$ .77       |
| Diluted earnings per share outstanding | \$ .34                      | \$ .30       | \$ .81                    | \$ .74       |

Diluted weighted average shares outstanding for the three and six months ended June 30, 2007 and 2006 included all outstanding options, as none were antidilutive.

**3. Segment Information**

The Company continues to operate in two operating segments: wholesale distribution and retail sales of men's footwear, which also constitute its reportable segments. None of the Company's operating segments were aggregated in determining the Company's reportable segments. The chief operating decision maker, the Company's Chief Executive Officer, evaluates the performance of its segments based on earnings from operations and accordingly, interest income and interest expense and other income or expense are not allocated to the segments. Summarized segment data for the three and six months ended June 30, 2007 and 2006 was:

|   | Wholesale<br>Distribution | Retail       | Total         |
|---|---------------------------|--------------|---------------|
| <b>Three Months Ended June 30,<br/>2007</b> |                           |              |               |
| Product sales                               | \$ 39,866,000             | \$ 7,670,000 | \$ 47,536,000 |
| Licensing revenues                          | 835,000                   | —            | 835,000       |
| Net sales                                   | 40,701,000                | 7,670,000    | 48,371,000    |
| Earnings from operations                    | 4,639,000                 | 1,268,000    | 5,907,000     |



**2006**

|                          |    |            |    |           |    |            |
|--------------------------|----|------------|----|-----------|----|------------|
| Product sales            | \$ | 37,465,000 | \$ | 6,716,000 | \$ | 44,181,000 |
| Licensing revenues       |    | 930,000    |    | —         |    | 930,000    |
| Net sales                |    | 38,395,000 |    | 6,716,000 |    | 45,111,000 |
| Earnings from operations |    | 4,535,000  |    | 949,000   |    | 5,484,000  |

**Six Months Ended June 30,****2007**

|                          |    |            |    |            |    |             |
|--------------------------|----|------------|----|------------|----|-------------|
| Product sales            | \$ | 95,389,000 | \$ | 14,918,000 | \$ | 110,307,000 |
| Licensing revenues       |    | 1,922,000  |    | —          |    | 1,922,000   |
| Net sales                |    | 97,311,000 |    | 14,918,000 |    | 112,229,000 |
| Earnings from operations |    | 12,552,000 |    | 2,033,000  |    | 14,585,000  |

**2006**

|                          |    |            |    |            |    |             |
|--------------------------|----|------------|----|------------|----|-------------|
| Product sales            | \$ | 88,672,000 | \$ | 13,719,000 | \$ | 102,391,000 |
| Licensing revenues       |    | 2,009,000  |    | —          |    | 2,009,000   |
| Net sales                |    | 90,681,000 |    | 13,719,000 |    | 104,400,000 |
| Earnings from operations |    | 11,677,000 |    | 2,013,000  |    | 13,690,000  |

#### 4. Share-Based Compensation Plans

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," (SFAS 123(R)) using the modified prospective method. This method requires that companies recognize compensation expense for new grants and the unvested portion of prior grants at their fair value on the grant date and recognize this expense over the requisite service period for awards expected to vest. During the three and six months ended June 30, 2007, the Company recognized approximately \$74,400 and \$148,400, respectively, of compensation expense associated with the stock option and restricted stock awards granted in 2006. No stock-based employee compensation expense was charged against income in the three and six months ended June 30, 2006, as there were no stock options granted during that period and all of the Company's stock options granted prior to the effective date of the adoption of SFAS 123(R) were 100% vested at the effective date.

The following table summarizes the stock option activity under the Company's equity incentive plans for the six-month period ended June 30, 2007:

|                                  | Shares    | Weighted<br>Average<br>Exercise<br>Price | Wtd. Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|-----------|--|--|---------------------------------|
| Outstanding at December 31, 2006 | 1,252,190 | \$ 12.62                                 |  |                                 |
| Exercised                        | (146,866) | \$ 9.47                                  |  |                                 |
| Forfeited                        | (3,300)   | \$ —                                     |  |                                 |
| Outstanding at June 30, 2007     | 1,102,024 | \$ 13.01                                 | 4.82   | \$ 15,343,193                   |
| Exercisable at June 30, 2007     | 1,057,424 | \$ 12.54                                 | 4.84   | \$ 15,216,529                   |

The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between market value at June 30, 2007 of \$26.93 and the exercise price.

The following table summarizes stock option activity for the three- and six-month periods ended June 30, 2007 and 2006:

|   | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|---|-----------------------------|--------------|---------------------------|--------------|
|   | 2007                        | 2006         | 2007                      | 2006         |
| Total intrinsic value of stock options exercised      | \$ 1,887,224                | \$ 1,795,297 | \$ 2,287,519              | \$ 2,197,045 |
| Cash received from stock option exercises             | \$ 1,065,413                | \$ 906,022   | \$ 1,390,253              | \$ 1,195,489 |
| Income tax benefit from the exercise of stock options | \$ 736,018                  | \$ 700,166   | \$ 896,033                | \$ 856,848   |
| Total fair value of stock options vested              | \$ —                        | \$ —         | \$ —                      | \$ —         |

#### 5. Shareholders' Investment

On July 1, 2007, the Company's Class B Common stock expired and each share was automatically converted one-for-one into the Company's Common stock. In anticipation of this event, the majority of the shares of Class B Common stock were voluntarily converted to Common stock during the second quarter of 2007.



## 6. Comprehensive Income

Comprehensive income for the three- and six-month periods ended June 30, 2007 and 2006 was as follows:

|   | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|---|-----------------------------|--------------|---------------------------|--------------|
|   | 2007                        | 2006         | 2007                      | 2006         |
| Net earnings  | \$ 4,049,116                | \$ 3,642,292 | \$ 9,743,740              | \$ 8,951,321 |
| Foreign currency translation adjustments                    | (214,863)                   | 43,601       | (245,142)                 | 104,226      |
| Change in unrecognized pension plan liabilities, net of tax | 95,000                      | —            | 188,000                   | —            |
| Total comprehensive income                                  | \$ 3,929,253                | \$ 3,685,893 | \$ 9,686,598              | \$ 9,055,547 |

The components of Accumulated Other Comprehensive Income as recorded on the accompanying balance sheets are as follows:

|   | June 30,<br>2007 | December 31,<br>2006 |
|---|------------------|----------------------|
| Foreign currency translation adjustments          | \$ 193,109       | \$ 438,251           |
| Unrecognized pension plan liabilities, net of tax | (5,632,292)      | (5,820,292)          |
| Total accumulated other comprehensive loss        | \$ (5,439,183)   | \$ (5,382,041)       |

## 7. New Accounting Pronouncements

On January 1, 2007 the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). This Interpretation clarifies the accounting and disclosures for uncertainty in tax positions. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the Company's financial statements only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. Under FIN 48, the cumulative effect is reported as an adjustment to the beginning balance of retained earnings on the balance sheet. The adoption of this interpretation did not have a material effect on the Company's financial statements. At June 30, 2007 the Company had approximately \$180,000 of unrecognized tax benefits.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 14, 2007, the Company's 2008 fiscal year. The Company is assessing the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value and also establishes presentation and disclosure requirements. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is assessing the provisions of SFAS 159 and the impact that adoption will have on its financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**OVERVIEW**

The Company is a distributor of men's casual, dress and fashion shoes. The principal brands of shoes sold by the Company are "Florsheim," "Nunn Bush," and "Stacy Adams." The Company also has other brands, including "Brass Boot" and "Nunn Bush NXXT," which are included within Nunn Bush net sales figures, and "SAO by Stacy Adams," which is included within Stacy Adams net sales. Inventory is purchased from third-party overseas manufacturers. The majority of foreign-sourced purchases are denominated in U.S. dollars. In the wholesale division, the Company's products are sold to shoe specialty stores, department stores and clothing retailers, primarily in North America, with some distribution in Europe. The Company also has a retail division, which as of June 30, 2007, consisted of 35 Company-owned retail stores in the United States, four in Europe, and an Internet business. Sales in retail outlets are made directly to consumers by Company employees. The Company also has licensing agreements with third parties who sell its branded shoes overseas, as well as licensing agreements with apparel and accessory manufacturers in the United States. As such, the Company's results are primarily affected by the economic conditions and the retail environment in the United States.

Overall, net earnings rose 11% in the second quarter of 2007 to \$4.0 million, or \$.34 per diluted share compared with \$3.6 million, or \$.30 per diluted share in the same period of 2006. For the six months ended June 30, 2007, net earnings were \$9.7 million, or \$.81 per diluted share, over the prior year's \$9.0 million, or \$.74 per diluted share. A detailed analysis of operating results follows.

**RESULTS OF OPERATIONS**

Consolidated net sales in the second quarter of 2007 were \$48.4 million, up from \$45.1 million in the prior year. For the six months ended June 30, 2007, consolidated net sales increased to \$112.2 million from \$104.4 million in 2006. Sales in the Company's wholesale division for the three- and six-month periods ended June 30, 2007 and 2006 were as follows:

|                          | Wholesale Division Sales    |               |          |                           |               |          |
|--------------------------|-----------------------------|---------------|----------|---------------------------|---------------|----------|
|                          | Three Months ended June 30, |               |          | Six Months ended June 30, |               |          |
|                          | 2007                        | 2006          | % change | 2007                      | 2006          | % change |
| Stacy Adams              | \$ 9,735,395                | \$ 11,085,071 | (12.2)%  | \$ 28,315,051             | \$ 27,931,883 | 1.4%     |
| Nunn Bush                | 15,881,796                  | 14,733,417    | 7.8%     | 33,574,973                | 33,091,901    | 1.5%     |
| Florsheim                | 13,483,832                  | 10,965,117    | 23.0%    | 30,548,653                | 25,289,698    | 20.8%    |
| Foreign                  | 764,607                     | 682,293       | 12.1%    | 2,950,177                 | 2,358,348     | 25.1%    |
| Total Wholesale          | \$ 39,865,630               | \$ 37,465,898 | 6.4%     | \$ 95,388,854             | \$ 88,671,830 | 7.6%     |
| Licensing                | 835,267                     | 929,595       | (10.1)%  | 1,921,633                 | 2,008,873     | (4.3)%   |
| Total Wholesale Division | \$ 40,700,897               | \$ 38,395,493 | 6.0%     | \$ 97,310,487             | \$ 90,680,703 | 7.3%     |

The acquisition of one of the Company's significant customers by another retailer late in 2005 resulted in some loss of sales volume at Nunn Bush and Florsheim during 2006 and the first half of 2007. The acquiring company decided not to go forward with either the Nunn Bush or Florsheim product lines in its stores. Business with this customer in the second quarter of 2007 was down \$600,000 compared with the second quarter of 2006. For the six months ended June 30, 2007, business with this customer was down \$2.9 million compared to the prior year period.

Net sales of the Stacy Adams brand decreased this quarter in comparison with the second quarter of 2006. Second quarter sales of Stacy Adams were down due to an early Easter in 2007, and also due to decreased volume with independent shoe and clothing retailers, who are struggling in today's retail environment. Year-to-date sales increased slightly in comparison to last year, as business with major chain stores has been strong this year, offsetting the decreased volume with the independent shoe and clothing retailers.

Nunn Bush sales for the second quarter were up compared with last year due to increased business with department stores and larger shoe store chains, which can be attributed to the success of its Comfort Gel product. For the six months ended June 30, 2007, net sales were up only 1.5% due to the offsetting impact of the loss of \$1.9 million of sales to the customer discussed above.

Florsheim sales in the current quarter were up 23%, as this quarter's sales included Canadian sales. Prior to January 1, 2007, Florsheim footwear was distributed in Canada by a third party licensee. That license arrangement terminated December 31, 2006, and since then, the Company has been operating its own wholesale business in Canada. The impact of this change in the second quarter was an increase of \$1.2 million in sales. Florsheim net sales increased 21% through June 30, 2007, compared to the same period of 2006. To date, 2007 sales included \$2.3 million of Canadian sales, but were negatively impacted by the \$1 million loss of business to the customer discussed above. The change in Canadian distributors reduced licensing revenues by \$75,000 and \$125,000 for the three and six months ended June 30, 2007. For both the quarter and six months ended June 30, 2007, Canadian sales accounted for approximately half the increase in Florsheim sales. The remaining increase resulted from increased sales to department stores and chains.

Overall gross earnings as a percent of net sales for the three months ended June 30, 2007 was 38.6% compared with 38.7% in the prior year period. Wholesale gross earnings as a percent of net sales for the quarter was 31.8% in 2007 compared with 32.2% in 2006. Gross earnings as a percent of net sales in the retail division was 67.3% in the second quarter of 2007 compared with 66.4% in 2006.

Overall gross earnings as a percent of net sales for the six months ended June 30, 2007 was 37.2% compared with 36.9% in 2006. Wholesale gross earnings as a percent of net sales for the six months ended June 30 was 31.3% in 2007 and 31.0% in 2006. Retail gross earnings as a percent of net sales for the first half of this year was 66.5% and 65.6% last year. Wholesale margins for the three and six months ended June 30, 2007 were consistent with the prior year. The Company is beginning to feel pricing pressures from its overseas suppliers due to the weakening dollar and increased labor and materials costs. Going forward, the Company will focus on carefully managing its costs and pricing structure in order to maintain margins.

The Company's cost of sales does not include distribution costs (e.g., receiving, inspection or warehousing costs). The Company's distribution costs for the three- and six-month periods ended June 30, 2007 and 2006, were approximately \$1,564,000 and \$3,281,000 in 2007, respectively, and \$1,531,000 and \$3,173,000 in 2006, respectively, and were included in selling and administrative expenses. Therefore, the Company's gross earnings may not be comparable to other companies, as some companies may include distribution costs in cost of sales.

The Company's selling and administrative expenses include, and are primarily related to, distribution costs, salaries and commissions, advertising costs, employee benefit costs, rent and depreciation. In the current quarter, selling and administrative expenses as a percent of net sales were 26.4% versus 26.6% in 2006. Wholesale selling and administrative expenses as a percent of net wholesale sales were 22.3% in 2007 and 22.6% in 2006. Retail selling and administrative expenses as a percent of net sales were 50.8% in 2007 and 52.3% in 2006.

For the six months ended June 30, selling and administrative expenses as a percent of net sales were 24.2% in 2007 versus 23.8% in 2006. Wholesale selling and administrative expenses as a percent of net wholesale sales to date were 20.2% in 2007 and 20.1% in 2006. Retail selling and administrative expenses as a percent of net sales increased to 52.9% in 2007 from 50.9% in 2006.

Net interest income in the second quarter and first six months of 2007 was up over last year \$70,000 and \$172,000, respectively, due to this year's higher investment in marketable securities, which are primarily invested in municipal bonds, and lower short-term borrowings.

The effective tax rate for the three and six months ended June 30, 2007 was 36.5% and 36.9%, respectively, which was down compared with 38.2% and 37.7%, respectively, in the prior year periods. The effective rate was down this year, primarily due to increased municipal bond interest.

## **LIQUIDITY & CAPITAL RESOURCES**

The Company's primary source of liquidity is its cash and short-term marketable securities, which aggregated approximately \$20.8 million at June 30, 2007 as compared with \$16.9 million at December 31, 2006. During the first six months of 2007, the Company's primary source of cash was from operations while its primary uses of cash were the repayment of borrowings and the repurchases of the Company's stock. The Company also spent \$1.2 million on capital expenditures in the first half of 2007. Capital expenditures are expected to be between \$3 and \$4 million for the full year of 2007 due to remodeling of retail stores and the opening of new stores.

The Company generated \$19.3 million in cash from operating activities in the first six months of 2007, compared with \$6.0 million in the prior year period. This increase was primarily due to changes in operating assets and liabilities and higher net earnings in 2007.

Cash dividends paid were \$2.1 million and \$1.6 million in the six months ended June 30, 2007 and 2006, respectively. On May 1, 2007, the Company's Board of Directors declared a quarterly dividend of \$.11 per share to shareholders of record June 1, 2007, payable July 2, 2007. This represents an increase of 22% in the quarterly dividend rate. The impact of this will be to increase cash dividends paid annually by approximately \$900,000.

The Company continues to repurchase its common stock under its share repurchase program when the Company believes market conditions are favorable. In the first half of 2007, the Company repurchased 282,699 shares for a total cost of \$7.3 million.

As of June 30, 2007, the Company had a total of \$50 million available under its borrowing facility, of which total borrowings were \$5.6 million. The facility includes one financial covenant which specifies a minimum level of net worth. The Company was in compliance with the covenant at June 30, 2007. The facility has a 364-day term and expires on April 30, 2008.

The Company will continue to evaluate the best uses for its free cash, including continued increased dividends, stock repurchases and acquisitions. The Company currently has 1.0 million shares available under its previously announced buyback program.

On July 1, 2007, all of the Company's outstanding Class B Common stock converted, one-for-one, into the Company's Common stock.

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 in 2007.

#### **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements with respect to the Company's outlook for the future. These statements represent the Company's reasonable judgment with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially. The reader is cautioned that these forward-looking statements are subject to a number of risks, uncertainties or other factors that may cause (and in the past sometimes have caused) actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties include, but are not limited to, the risk factors described under Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes from those reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.



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 not been any 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

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

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

In April 1998, the Company first authorized a stock repurchase program to purchase 1,500,000 shares of its common stock in open market transactions at prevailing prices. In April 2000 and again in May 2001, the Company's Board of Directors extended the stock repurchase program to cover the repurchase of 1,500,000 additional shares. Therefore, 4,500,000 shares have been authorized for repurchase since the program began. The table below presents information pursuant to Item 703(a) of Regulation S-K regarding the repurchase of the Company's Common Stock by the Company in the three-month period ended June 30, 2007.

| Period              | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid Per Share | Total Number<br>of Shares<br>Purchased as<br>Part of the<br>Publicly<br>Announced<br>Program | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Program |
|---------------------|--|---------------------------------|--|--|
| 04/01/07 - 04/30/07 | 53,350                                 | \$ 25.15                        | 53,350   | 1,169,197  |
| 05/01/07 - 05/31/07 | 77,140                                 | \$ 25.46                        | 77,140   | 1,092,057  |
| 06/01/07 - 06/30/07 | 79,109                                 | \$ 26.37                        | 79,109   | 1,012,948  |
| <b>Total</b>        | 209,599                                | \$ 25.72                        | 209,599  | 1,012,948  |

## Item 4. Submission of Matters to a Vote of Security Holders

Reference is made to Item 4 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 for a description of the results of votes of security holders at the Annual Meeting of Shareholders held May 1, 2007.

## 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.

August 9, 2007

Date

/s/ John F. Wittkowske

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 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  
DATE OF June 30, 2007

| EXHIBIT<br>NUMBER | DESCRIPTION   | INCORPORATED HEREIN BY<br>REFERENCE TO    |
|-------------------|---|---|
| 3                 | Bylaws as Revised January 21, 1991 and Last Amended July 26, 2007 | Exhibit 3 to Form 8-K dated July 26, 2007 |
| 31.1              | Certification of Chief Executive Officer                          |   |
| 31.2              | Certification of Chief Financial Officer                          |   |
| 32.1              | Section 906 Certification of Chief Executive Officer              |   |
| 32.2              | Section 906 Certification of Chief Financial Officer              |   |