

WEYCO GROUP INC  
Form 10-Q  
August 08, 2008

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, 2008

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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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 x

As of July 31, 2008 there were 11,385,952 shares of common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

The consolidated 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 SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)**

|  | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|--------------------------|------------------------------|
| <b>(Dollars in thousands)</b>                      |                          |                              |
| <b>ASSETS:</b>                                     |                          |                              |
| Cash and cash equivalents                          | \$ 14,506                | \$ 7,859                     |
| Marketable securities, at amortized cost           | 1,718                    | 5,604                        |
| Accounts receivable, net                           | 31,266                   | 35,965                       |
| Accrued income tax receivable                      | 442                      | -                            |
| Inventories  | 41,939                   | 44,632                       |
| Deferred income tax benefits                       | 108                      | 475                          |
| Prepaid expenses and other current assets          | 2,959                    | 3,301                        |
| <b>Total current assets</b>                        | <b>92,938</b>            | <b>97,836</b>                |
| Marketable securities, at amortized cost           | 45,493                   | 43,331                       |
| Other assets                                       | 9,694                    | 9,440                        |
| Property, plant and equipment, net                 | 29,241                   | 28,677                       |
| Trademark  | 10,868                   | 10,868                       |
| <b>Total assets</b>                                | <b>\$ 188,234</b>        | <b>\$ 190,152</b>            |
| <b>LIABILITIES &amp; SHAREHOLDERS' INVESTMENT:</b> |                          |                              |
| Short-term borrowings                              | \$ 2,000                 | \$ 550                       |
| Accounts payable                                   | 6,360                    | 10,541                       |
| Dividend payable                                   | 1,608                    | 1,270                        |
| Accrued liabilities                                | 6,313                    | 8,026                        |
| Accrued income taxes                               | -                        | 716                          |
| <b>Total current liabilities</b>                   | <b>16,281</b>            | <b>21,103</b>                |
| Long-term pension liability                        | 6,388                    | 6,043                        |
| Deferred income tax liabilities                    | 1,835                    | 2,248                        |
| Common stock                                       | 11,436                   | 11,534                       |
| Capital in excess of par value                     | 13,154                   | 10,788                       |
| Reinvested earnings                                | 143,056                  | 142,775                      |
| Accumulated other comprehensive loss               | (3,916)                  | (4,339)                      |
| <b>Total shareholders' investment</b>              | <b>163,730</b>           | <b>160,758</b>               |

|  |    |         |    |         |
|--|----|---------|----|---------|
| Total liabilities and shareholders' investment | \$ | 188,234 | \$ | 190,152 |
|--|----|---------|----|---------|

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

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## WEYCO GROUP, INC. AND SUBSIDIARIES

**CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)**

|   | Three Months Ended June 30,              |                 | Six Months Ended June 30, |                 |
|---|--|-----------------|---------------------------|-----------------|
|   | 2008                                     | 2007            | 2008                      | 2007            |
|   | (In thousands, except per share amounts) |                 |                           |                 |
| Net sales   | \$ 53,017                                | \$ 48,371       | \$ 114,295                | \$ 112,229      |
| Cost of sales                                     | 33,284                                   | 29,677          | 72,296                    | 70,484          |
| <b>Gross earnings</b>                             | <b>19,733</b>                            | <b>18,694</b>   | <b>41,999</b>             | <b>41,745</b>   |
| Selling and administrative expenses               | 13,848                                   | 12,787          | 28,519                    | 27,159          |
| <b>Earnings from operations</b>                   | <b>5,885</b>                             | <b>5,907</b>    | <b>13,480</b>             | <b>14,586</b>   |
| Interest income                                   | 491                                      | 555             | 999                       | 1,062           |
| Interest expense                                  | (20)                                     | (85)            | (30)                      | (208)           |
| Other income                                      | 1  | 2               | 8                         | 4               |
| <b>Earnings before provision for income taxes</b> | <b>6,357</b>                             | <b>6,379</b>    | <b>14,457</b>             | <b>15,444</b>   |
| Provision for income taxes                        | 2,300                                    | 2,330           | 5,275                     | 5,700           |
| <b>Net earnings</b>                               | <b>\$ 4,057</b>                          | <b>\$ 4,049</b> | <b>\$ 9,182</b>           | <b>\$ 9,744</b> |
| Weighted average shares outstanding               |  |                 |                           |                 |
| Basic   | 11,443                                   | 11,566          | 11,452                    | 11,615          |
| Diluted   | 11,786                                   | 12,015          | 11,823                    | 12,068          |
| Earnings per share                                |  |                 |                           |                 |
| Basic   | \$ 0.35                                  | \$ 0.35         | \$ 0.80                   | \$ 0.84         |
| Diluted   | \$ 0.34                                  | \$ 0.34         | \$ 0.78                   | \$ 0.81         |
| Cash dividends per share                          | \$ 0.14                                  | \$ 0.11         | \$ 0.25                   | \$ 0.20         |

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

## WEYCO GROUP, INC. AND SUBSIDIARIES

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)**

|  | 2008                   | 2007      |
|--|------------------------|-----------|
|  | (Dollars in thousands) |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                        |           |
| Net earnings   | \$ 9,182               | \$ 9,744  |
| Adjustments to reconcile net earnings to net cash provided by operating activities - |                        |           |
| Depreciation   | 1,283                  | 1,237     |
| Amortization   | 54                     | 42        |
| Deferred income taxes  | (138)                  | (179)     |
| Stock-based compensation   | 293                    | 148       |
| Pension expense  | 676                    | 670       |
| Loss on disposal of fixed assets   | 131                    | -         |
| Increase in cash surrender value of life insurance                                   | (112)                  | (259)     |
| Change in operating assets and liabilities -   |                        |           |
| Accounts receivable  | 4,699                  | 2,669     |
| Inventories  | 2,693                  | 11,239    |
| Prepays and other current assets   | 357                    | 422       |
| Accounts payable   | (4,181)                | (5,262)   |
| Accrued liabilities and other  | (1,673)                | (231)     |
| Accrued income taxes   | (1,166)                | (915)     |
| Net cash provided by operating activities  | 12,098                 | 19,325    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                        |           |
| Purchase of marketable securities  | (1,799)                | (2,963)   |
| Proceeds from maturities of marketable securities                                    | 3,468                  | 176       |
| Life insurance premiums paid   | (155)                  | -         |
| Purchase of property, plant and equipment  | (1,835)                | (1,221)   |
| Proceeds from sales of property, plant and equipment                                 | -                      | 62        |
| Net cash used for investing activities   | (321)                  | (3,946)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                        |           |
| Cash dividends paid  | (2,535)                | (2,108)   |
| Shares purchased and retired   | (6,247)                | (7,271)   |
| Proceeds from stock options exercised  | 1,261                  | 1,390     |
| Borrowings (repayments) under revolving credit agreement                             | 1,450                  | (5,405)   |
| Income tax benefits from share-based compensation                                    | 941                    | 896       |
| Net cash used for financing activities   | (5,130)                | (12,498)  |
| Net increase in cash and cash equivalents  | 6,647                  | 2,881     |
| CASH AND CASH EQUIVALENTS at beginning of period                                     | \$ 7,859               | \$ 15,314 |
| CASH AND CASH EQUIVALENTS at end of period   | \$ 14,506              | \$ 18,195 |

## SUPPLEMENTAL CASH FLOW INFORMATION:

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|                                   |    |       |    |       |
|-----------------------------------|----|-------|----|-------|
| Income taxes paid, net of refunds | \$ | 5,603 | \$ | 5,798 |
| Interest paid                     | \$ | 30    | \$ | 241   |

*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, the accompanying unaudited consolidated condensed financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The results of operations for the three months or six months ended June 30, 2008 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:

|   | <b>Three Months Ended June 30,</b>              |             | <b>Six Months Ended June 30,</b> |             |
|---|---|-------------|----------------------------------|-------------|
|   | <b>2008</b>                                     | <b>2007</b> | <b>2008</b>                      | <b>2007</b> |
|   | <b>(In thousands, except per share amounts)</b> |             |                                  |             |
| <b>Numerator:</b>                           |   |             |                                  |             |
| Net Earnings                                | \$ 4,057  | \$ 4,049    | \$ 9,182                         | \$ 9,744    |
| <b>Denominator:</b>                         |   |             |                                  |             |
| Basic weighted average shares outstanding   | 11,443  | 11,566      | 11,452                           | 11,615      |
| <b>Effect of dilutive securities:</b>       |   |             |                                  |             |
| Employee stock-based awards                 | 343   | 449         | 371                              | 453         |
| Diluted weighted average shares outstanding | 11,786  | 12,015      | 11,823                           | 12,068      |
| Basic earnings per share                    | \$ 0.35   | \$ 0.35     | \$ 0.80                          | \$ 0.84     |
| Diluted earnings per share                  | \$ 0.34   | \$ 0.34     | \$ 0.78                          | \$ 0.81     |

Diluted weighted average shares outstanding for the three and six months ended June 30, 2008 exclude outstanding options to purchase 6,640 shares of common stock at a weighted average price of \$30.12, as they were antidilutive. Diluted weighted average shares outstanding for the three and six months ended June 30, 2007 include 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, 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, 2008 and 2007 was:

| Three Months Ended June 30, | Wholesale<br>Distribution | Retail   | Total     |
|-----------------------------|---------------------------|----------|-----------|
| (Dollars in thousands)      |                           |          |           |
| <b>2008</b>                 |                           |          |           |
| Product sales               | \$ 44,696                 | \$ 7,352 | \$ 52,048 |
| Licensing revenues          | 969                       | -        | 969       |
| Net sales                   | \$ 45,665                 | \$ 7,352 | \$ 53,017 |
| Earnings from operations    | \$ 5,524                  | \$ 361   | \$ 5,885  |

|                          |           |          |           |
|--------------------------|-----------|----------|-----------|
| <b>2007</b>              |           |          |           |
| Product sales            | \$ 39,866 | \$ 7,670 | \$ 47,536 |
| Licensing revenues       | 835       | -        | 835       |
| Net sales                | \$ 40,701 | \$ 7,670 | \$ 48,371 |
| Earnings from operations | \$ 4,639  | \$ 1,268 | \$ 5,907  |

| Six Months Ended June 30, | Wholesale<br>Distribution | Retail    | Total      |
|---------------------------|---------------------------|-----------|------------|
| (Dollars in thousands)    |                           |           |            |
| <b>2008</b>               |                           |           |            |
| Product sales             | \$ 97,834                 | \$ 14,442 | \$ 112,276 |
| Licensing revenues        | 2,019                     | -         | 2,019      |
| Net sales                 | \$ 99,853                 | \$ 14,442 | \$ 114,295 |
| Earnings from operations  | \$ 12,754                 | \$ 726    | \$ 13,480  |

|                          |           |           |            |
|--------------------------|-----------|-----------|------------|
| <b>2007</b>              |           |           |            |
| Product sales            | \$ 95,389 | \$ 14,918 | \$ 110,307 |
| Licensing revenues       | 1,922     | -         | 1,922      |
| Net sales                | \$ 97,311 | \$ 14,918 | \$ 112,229 |
| Earnings from operations | \$ 12,552 | \$ 2,034  | \$ 14,586  |

#### 4. Employee Retirement Plans

The components of the Company's net pension expense were:

|   | Three Months Ended June 30,<br>2008 |        | Six Months Ended June 30,<br>2007 |         |
|---|-------------------------------------|--------|-----------------------------------|---------|
|   | (Dollars in thousands)              |        |                                   |         |
| Benefits earned during the period             | \$ 214                              | \$ 220 | \$ 428                            | \$ 441  |
| Interest cost on projected benefit obligation | 513                                 | 477    | 1,026                             | 952     |
| Expected return on plan assets                | (503)                               | (514)  | (1,006)                           | (1,030) |
| Net amortization and deferral                 | 114                                 | 155    | 228                               | 307     |
| Net pension expense                           | \$ 338                              | \$ 338 | \$ 676                            | \$ 670  |

#### 5. Share-Based Compensation Plans

During the three and six months ended June 30, 2008, the Company recognized approximately \$148,000 and \$293,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in 2006 and 2007. 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 stock option and restricted stock awards granted in 2006.

The following table summarizes the stock option activity under the Company's plans for the six-month period ended June 30, 2008:

|                                  | Shares    | Weighted Average Exercise Price | Wtd. Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value* |
|----------------------------------|-----------|---------------------------------|---|----------------------------|
| Outstanding at December 31, 2007 | 1,189,924 | \$ 14.49                        |   |                            |
| Exercised                        | (122,716) | \$ 10.27                        |   |                            |
| Forefeited                       | (1,200)   | \$ 27.38                        |   |                            |
| Outstanding at June 30, 2008     | 1,066,008 | \$ 14.96                        | 4.14  | \$ 12,450,668              |
| Exercisable at June 30, 2008     | 911,058   | \$ 12.95                        | 4.13  | \$ 12,475,305              |

\* The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between market value at June 30, 2008 of \$26.53 and the exercise price.

The following table summarizes stock option activity for the three and six months ended June 30, 2008 and 2007:

|  | Three Months Ended June 30,<br>2008 |          | Six Months Ended June 30,<br>2007 |          |
|--|-------------------------------------|----------|-----------------------------------|----------|
|  | (Dollars in thousands)              |          |                                   |          |
| Total intrinsic value of stock options exercised | \$ 41                               | \$ 1,887 | \$ 2,417                          | \$ 2,288 |
| Cash received from stock option exercises        | \$ 49                               | \$ 1,065 | \$ 1,261                          | \$ 1,390 |

|   |    |    |    |     |    |     |    |     |
|---|----|----|----|-----|----|-----|----|-----|
| Income tax benefit from the exercise of stock options | \$ | 16 | \$ | 736 | \$ | 941 | \$ | 896 |
|---|----|----|----|-----|----|-----|----|-----|

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## 6. Short-Term Borrowings

As of June 30, 2008, the Company had a total of \$50 million available under its borrowing facility, under which total outstanding borrowings were \$2 million. The facility includes one financial covenant that specifies a minimum level of net worth. The Company was in compliance with the covenant at June 30, 2008. The facility expires on April 30, 2009.

## 7. Comprehensive Income

Comprehensive income for the three and six months ended June 30, 2008 and 2007 was as follows:

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2008                        | 2007     | 2008                      | 2007     |
|  | (Dollars in thousands)      |          |                           |          |
| Net earnings                             | \$ 4,057                    | \$ 4,049 | \$ 9,182                  | \$ 9,744 |
| Foreign currency translation adjustments | 1                           | (215)    | 277                       | (245)    |
| Pension liability, net of tax            | 73                          | 95       | 146                       | 188      |
| Total comprehensive income               | \$ 4,131                    | \$ 3,929 | \$ 9,605                  | \$ 9,687 |

The components of Accumulated Other Comprehensive Loss as recorded on the accompanying balance sheets were as follows:

|  | June 30,               | December 31, |
|--|------------------------|--------------|
|  | 2008                   | 2007         |
|  | (Dollars in thousands) |              |
| Foreign currency translation adjustments   | \$ 623                 | \$ 346       |
| Pension liability, net of tax              | (4,539)                | (4,685)      |
| Total accumulated other comprehensive loss | \$ (3,916)             | \$ (4,339)   |

## 8. New Accounting Pronouncements

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," (SFAS 157) which provides a single definition of fair value and a common framework for measuring fair value, as well as new disclosure requirements for fair value measurements used in financial statements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. The SFAS 157 requirements for certain non-financial assets and liabilities have been deferred until January 1, 2009 for the Company in accordance with Financial Accounting Standards Board (FASB) Staff Position 157-2. The adoption of SFAS 157 has not had a material effect on the Company's consolidated 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." 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, 2008, consisted of 39 Company-owned retail stores in the United States, two 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.

Second quarter consolidated net sales in 2008 were \$53 million, up 9.6% compared with last year. Wholesale sales were up 12%, and retail sales were down 4%. Consolidated net earnings and diluted earnings per share for the quarter were level with last year at \$4.1 million and \$.34, respectively.

Consolidated net sales through June 30, 2008 were \$114.3 million, up 2% compared with \$112.2 million in the first six months of last year. Wholesale sales were up 3%, and retail sales were down 3%. Consolidated net earnings year-to-date were \$9.2 million, down 6% compared with last year's \$9.7 million. Diluted earnings for the six months ended June 30, 2008 and 2007 were \$.78 and \$.81 per share, respectively. A detailed analysis of operating results follows.

**RESULTS OF OPERATIONS****Wholesale Sales**

Sales in the Company's wholesale division for the three- and six-month periods ended June 30, 2008 and 2007 were as follows:

**Wholesale Division Sales**

|                             | Three Months Ended June 30, |           |          | Six Months Ended June 30, |           |          |
|-----------------------------|-----------------------------|-----------|----------|---------------------------|-----------|----------|
|                             | 2008                        | 2007      | % Change | 2008                      | 2007      | % Change |
|                             | (Dollars in thousands)      |           |          | (Dollars in thousands)    |           |          |
| <b>North American Sales</b> |                             |           |          |                           |           |          |
| Stacy Adams                 | \$ 13,131                   | \$ 9,736  | 34.9%    | \$ 31,430                 | \$ 28,315 | 11.0%    |
| Nunn Bush                   | 16,417                      | 15,882    | 3.4%     | 33,906                    | 33,575    | 1.0%     |
| Florsheim                   | 14,350                      | 13,483    | 6.4%     | 29,160                    | 30,549    | -4.5%    |
| Foreign Sales               | 798                         | 765       | 4.3%     | 3,338                     | 2,950     | 13.2%    |
| Total Wholesale             | \$ 44,696                   | \$ 39,866 | 12.1%    | \$ 97,834                 | \$ 95,389 | 2.6%     |
| Licensing                   | 969                         | 835       | 16.0%    | 2,019                     | 1,922     | 5.0%     |
| Total Wholesale Division    | \$ 45,665                   | \$ 40,701 | 12.2%    | \$ 99,853                 | \$ 97,311 | 2.6%     |

Stacy Adams sales for the second quarter of 2008 were up 35% compared with last year's second quarter. The growth was driven by an increase in sales of contemporary footwear to national accounts. Stacy Adams recently expanded its array of denim-friendly footwear, and these styles shipped to many of its major accounts in the second quarter. In

addition, Stacy Adams sells a lot of seasonal product, and because of tight budgets, many retailers brought in seasonal styles later. This caused some volume to shift from the first quarter to the second. Year-to-date sales of Stacy Adams were up 11% over last year.

The new Dynamic Comfort line of slip resistant footwear at Nunn Bush helped deliver a solid second quarter for the Nunn Bush brand. The quarter and year-to-date increases at Nunn Bush also reflect the brand's solid performance at retail.

The second quarter increase in Florsheim sales was primarily attributable to increased sales of its Comfortech shoes. Year-to-date Florsheim sales were down compared to last year due to the timing of new programs. In the first quarter of 2007, Florsheim rolled out a number of new shoe programs introducing contemporary and casual styles. In 2008, there were no new product introductions of a similar scale.

Licensing revenues were up compared with last year for the second quarter and first six months of 2008. Licensee sales of Stacy Adams branded products were down for the quarter and six months, as the independent clothing retailers continue to face a challenging retail environment. However, Stacy Adams royalties increased this year because the Company terminated its agreement with its licensing agent, to whom the Company previously paid a percentage of the royalties. The services performed by the licensing agent are now handled in house, and the related costs are included in selling and administrative expenses and offset a portion of the royalty gain. Licensing revenues from the sales of Florsheim footwear overseas and branded products in the US were consistent for the quarter and up year-to-date.

#### Retail Sales

Retail net sales in the second quarter of 2008 were \$7.4 million, down 4% from last year's \$7.7 million. Year-to-date retail net sales were down 3% compared with the same period last year. Same store sales for the three- and six-month periods ended June 30, 2008 were each down 6% in comparison to the same periods last year. Stores are included in same store sales beginning in the store's 13<sup>th</sup> month of operations after its grand opening. The Company had four additional stores during the second quarter of 2008 compared with the second quarter of 2007. The Company's management believes the performance of the retail division this quarter and to date this year was consistent with the current overall retail environment. In July 2008, the Company closed one of its stores.

#### Gross Earnings

Overall gross earnings were 37.2% of net sales in the three months ended June 30, 2008 compared with 38.6% of net sales in the prior year period. Approximately half of the decrease in overall margins was due to a change this quarter in the mix of wholesale and retail sales, with wholesale sales making up a higher percentage of total sales than last year. Because wholesale sales carry lower margins than retail sales, the increase in wholesale sales resulted in a decrease in overall gross margins. Additionally, wholesale and retail gross margins decreased 80 and 50 basis points, respectively. Wholesale gross earnings were 31.0% of net sales in the current quarter compared with 31.8% in the second quarter 2007. The decrease in wholesale gross earnings for the quarter as a percent of net sales was a reflection of cost increases from the Company's overseas vendors which have been partially offset by wholesale price increases. In the retail division, gross earnings were 66.8% of net sales compared with 67.3% in the second quarter of 2007.

Overall gross earnings as a percent of net sales for the six months ended June 30, 2008 was 36.7% compared with 37.2% of net sales last year. Wholesale gross earnings were 31.1% of net sales to date this year compared with 31.3% last year. Retail gross earnings in the first six months of 2008 were 66.4% of net sales compared with 66.5% last year.

The Company's cost of sales does not include distribution costs (e.g., receiving, inspection or warehousing costs). Distribution costs for the three months ended June 30, 2008 and 2007 were approximately \$1,873,000 and \$1,728,000 respectively. The Company's distribution costs to date in 2008 and 2007 were approximately \$3,906,000 and \$3,578,000, respectively. These costs 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.

#### Selling and Administrative Expenses

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 were 26.1% of net sales versus 26.4% of net sales in 2007. Wholesale selling and administrative expenses were 20.8% of net wholesale sales in 2008 compared with 22.3% in 2007. The current quarter decrease in wholesale selling and administrative expenses as a percent of net sales reflects the fixed nature of many wholesale selling and administrative expenses. Retail selling and administrative expenses were 61.9% of net sales in 2008 and 50.8% of net sales in 2007.

For the six months ended June 30, 2008, selling and administrative expenses were 25.0% of net sales versus 24.2% of net sales in 2007. Wholesale selling and administrative expenses to date were 20.1% of net sales versus 20.2% in 2007. Retail selling and administrative expenses to date this year were 61.4% of net sales compared with 52.9% of net sales last year. The increase in retail selling and administrative expenses as a percent of sales for both the quarter and six months ended June 30, 2008 reflects the impact of lower sales volume in the current year on fixed selling and administrative costs. Additionally, the Company continues to experience higher rent and occupancy costs.

#### Interest and Taxes

Interest expense during the three-month periods ended June 30, 2008 and 2007 was \$20,000 and \$85,000, respectively. For the six-month periods ended June 30, 2008 and 2007, interest expense was \$30,000 and \$208,000, respectively. The quarter and year-to-date decreases this year were due to lower average short-term borrowings this year compared with last year. The Company's effective tax rate in the second quarter of 2008 was 36.2% compared with 36.5% in the second quarter of 2007. The effective tax rate for the six months ended June 30, 2008 was 36.5% compared with 36.9% in the prior year.

#### **LIQUIDITY & CAPITAL RESOURCES**

The Company's primary source of liquidity is its cash and short-term marketable securities. During the first half of 2008, the Company's primary source of cash was from operations while its primary use of cash was repurchases of the Company's stock. The Company also spent \$1.8 million on capital expenditures in the first half of 2008 of which approximately \$1.4 million was related to retail store remodeling projects. Capital expenditures are expected to be approximately \$2-\$3 million for the full year of 2008.



The Company generated \$12.1 million in cash from operating activities in the first half of 2008, compared with \$19.3 million in the prior year period. This decrease was primarily due to changes in operating assets and liabilities.

The Company paid cash dividends of \$2.5 million and \$2.1 million in the six months ended June 30, 2008 and 2007, respectively. On April 29, 2008, the Company's Board of Directors declared a quarterly dividend of \$.14 per share to shareholders of record June 2, 2008, payable July 1, 2008. This represents an increase of 27% in the quarterly dividend rate. The impact of this will be to increase cash dividends paid annually by approximately \$1.4 million.

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 2008, the Company repurchased 219,518 shares for a total cost of \$6.2 million. The Company currently has 697,389 shares available under its previously announced buyback program.

As of June 30, 2008, the Company had a total of \$50 million available under its borrowing facility, under which total outstanding borrowings were \$2 million. The facility includes one financial covenant that specifies a minimum level of net worth. The Company was in compliance with the covenant at June 30, 2008. The facility expires on April 30, 2009.

The Company will continue to evaluate the best uses for its free cash, including continued increased dividends, stock repurchases and 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 in 2008.

## **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 some cases 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, 2007.

### **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, 2007.

### **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, 2007.

### 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, 2008.

| Period                  | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid<br>Per Share | Total Number of<br>Shares Purchased as<br>Part of the Publicly<br>Announced<br>Program | Maximum Number<br>of Shares<br>that May Yet Be<br>Purchased Under<br>the Program |
|-------------------------|---|---------------------------------------|--|--|
| <b>4/1/08 - 4/30/08</b> | 1,009                                     | \$ 27.03                              | 1,009  | 769,198  |
| <b>5/1/08 - 5/31/08</b> | 19,273                                    | \$ 27.03                              | 19,273   | 749,925  |
| <b>6/1/08 - 6/30/08</b> | 52,536                                    | \$ 26.91                              | 52,536   | 697,389  |
| <b>Total</b>            | 72,818                                    | \$ 26.94                              | 72,818   | 697,389  |

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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, 2008 for a description of the results of votes of security holders at the Annual Meeting of Shareholders held April 29, 2008.

Item 6. Exhibits

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

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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.

August 8, 2008  
Date

WEYCO GROUP, INC.

/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  
DATE OF June 30, 2008

| EXHIBIT<br>NUMBER | DESCRIPTION   |
|-------------------|---|
| 10.9              | Loan agreement between Weyco Group, Inc. and M&I Marshall & Ilsley Bank dated April 28, 2006                      |
| 10.9a             | Amendment to loan agreement dated April 28, 2006 which extends the revolving loan maturity date to April 30, 2009 |
| 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  |

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