

WEYCO GROUP INC
Form 10-Q
August 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

Or

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

For the transition period from to _____ 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

As of August 1, 2013, there were 10,828,541 shares of common stock outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated condensed financial statements included herein have been prepared by Weyco Group, Inc. (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)

| | June 30, 2013 | December 31, 2012 |
|---|---------------------------|-------------------------|
| | (Dollars in thousands) | |
| ASSETS: | | |
| Cash and cash equivalents | \$7,048 | \$ 17,288 |
| Marketable securities, at amortized cost | 6,981 | 8,004 |
| Accounts receivable, net | 42,717 | 49,048 |
| Accrued income tax receivable | 2,628 | 1,136 |
| Inventories | 52,332 | 65,366 |
| Deferred income tax benefits | 396 | 649 |
| Prepaid expenses and other current assets | 5,298 | 4,953 |
| Total current assets | 117,400 | 146,444 |
| Marketable securities, at amortized cost | 30,915 | 36,216 |
| Deferred income tax benefits | 1,440 | 792 |
| Property, plant and equipment, net | 35,706 | 37,218 |
| Goodwill | 11,112 | 11,112 |
| Trademarks | 34,748 | 34,748 |
| Other assets | 21,666 | 18,791 |
| Total assets | \$252,987 | \$ 285,321 |
| LIABILITIES AND EQUITY: | | |
| Short-term borrowings | \$20,000 | \$45,000 |
| Accounts payable | 4,524 | 11,133 |
| Dividend payable | 1,938 | - |

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| | | |
|--------------------------------------|-----------|-----------|
| Accrued liabilities | 9,013 | 13,888 |
| Total current liabilities | 35,475 | 70,021 |
| Long-term pension liability | 28,216 | 27,530 |
| Other long-term liabilities | 6,695 | 6,381 |
| Equity: | | |
| Common stock | 10,804 | 10,831 |
| Capital in excess of par value | 29,932 | 26,184 |
| Reinvested earnings | 148,696 | 149,664 |
| Accumulated other comprehensive loss | (13,375) | (12,514) |
| Total Weyco Group, Inc. equity | 176,057 | 174,165 |
| Noncontrolling interest | 6,544 | 7,224 |
| Total equity | 182,601 | 181,389 |
| Total liabilities and equity | \$252,987 | \$285,321 |

The accompanying notes to consolidated condensed financial statements (unaudited) are an integral part of these financial statements.

WEYCO GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|----------|------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands, except per share amounts) | | | |
| Net sales | \$65,041 | \$60,333 | \$138,631 | \$135,647 |
| Cost of sales | 40,343 | 37,455 | 86,234 | 84,738 |
| Gross earnings | 24,698 | 22,878 | 52,397 | 50,909 |
| Selling and administrative expenses | 21,018 | 19,476 | 44,029 | 41,674 |
| Earnings from operations | 3,680 | 3,402 | 8,368 | 9,235 |
| Interest income | 386 | 483 | 798 | 966 |
| Interest expense | (112) | (116) | (239) | (245) |
| Other expense, net | (538) | (123) | (627) | (65) |
| Earnings before provision for income taxes | 3,416 | 3,646 | 8,300 | 9,891 |
| Provision for income taxes | 1,151 | 1,094 | 2,910 | 3,284 |
| Net earnings | 2,265 | 2,552 | 5,390 | 6,607 |
| Net earnings (loss) attributable to noncontrolling interest | 60 | 333 | (15) | 519 |
| Net earnings attributable to Weyco Group, Inc. | \$2,205 | \$2,219 | \$5,405 | \$6,088 |
| Weighted average shares outstanding | | | | |
| Basic | 10,763 | 10,865 | 10,762 | 10,877 |
| Diluted | 10,813 | 10,982 | 10,824 | 11,005 |
| Earnings per share | | | | |
| Basic | \$0.20 | \$0.20 | \$0.50 | \$0.56 |
| Diluted | \$0.20 | \$0.20 | \$0.50 | \$0.55 |
| Cash dividends declared (per share) | \$0.18 | \$0.17 | \$0.18 | \$0.33 |
| Comprehensive income | \$982 | \$2,088 | \$3,864 | \$6,978 |
| Comprehensive (loss) income attributable to noncontrolling interest | (533) | 151 | (680) | 796 |

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| | | | | |
|--|---------|---------|---------|---------|
| Comprehensive income attributable to Weyco Group, Inc. | \$1,515 | \$1,937 | \$4,544 | \$6,182 |
|--|---------|---------|---------|---------|

The accompanying notes to consolidated condensed financial statements (unaudited) are an integral part of these financial statements.

WEYCO GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six Months Ended | |
|--|------------------------|----------|
| | June 30, | |
| | 2013 | 2012 |
| | (Dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$5,390 | \$6,607 |
| Adjustments to reconcile net earnings to net cash provided by operating activities - | | |
| Depreciation | 1,985 | 1,603 |
| Amortization | 171 | 184 |
| Bad debt expense | 87 | 152 |
| Deferred income taxes | (727) | (841) |
| Net gain on remeasurement of contingent consideration | - | (1,219) |
| Net foreign currency transaction losses | 580 | 90 |
| Stock-based compensation | 633 | 598 |
| Pension contribution | (110) | - |
| Pension expense | 1,796 | 1,869 |
| Increase in cash surrender value of life insurance | (115) | (115) |
| Changes in operating assets and liabilities - | | |
| Accounts receivable | 6,278 | 5,244 |
| Inventories | 12,960 | 2,082 |
| Prepays and other assets | 99 | 376 |
| Accounts payable | (6,628) | (8,547) |
| Accrued liabilities and other | (5,004) | (1,096) |
| Accrued income taxes | (1,493) | (392) |
| Net cash provided by operating activities | 15,902 | 6,595 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of marketable securities | (12) | - |
| Proceeds from maturities of marketable securities | 6,308 | 2,905 |
| Life insurance premiums paid | (155) | (155) |
| Investment in real estate | (3,206) | - |
| Purchase of property, plant and equipment | (1,125) | (2,128) |
| Net cash provided by investing activities | 1,810 | 622 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | - | (3,496) |
| Shares purchased and retired | (4,623) | (3,812) |
| Proceeds from stock options exercised | 2,828 | 1,566 |
| Payment of contingent consideration | (1,270) | - |
| Proceeds from bank borrowings | 2,000 | 9,000 |
| Repayments of bank borrowings | (27,000) | (12,000) |

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| | | |
|--|------------|------------|
| Income tax benefits from stock-based compensation | 455 | 469 |
| Net cash used for financing activities | (27,610) | (8,273) |
| Effect of exchange rate changes on cash and cash equivalents | (342) | (7) |
| Net decrease in cash and cash equivalents | \$(10,240) | \$(1,063) |
| CASH AND CASH EQUIVALENTS at beginning of period | 17,288 | 10,329 |
| CASH AND CASH EQUIVALENTS at end of period | \$7,048 | \$9,266 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Income taxes paid, net of refunds | \$4,527 | \$4,010 |
| Interest paid | \$206 | \$191 |

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. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results for the full year.

2. Reclassifications

Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation. Such reclassifications had no effect on previously reported net income or equity.

3. 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, | |
|--|--|---------|------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands, except per share amounts) | | | |
| Numerator: | | | | |
| Net earnings attributable to Weyco Group, Inc. | \$2,205 | \$2,219 | \$5,405 | \$6,088 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 10,763 | 10,865 | 10,762 | 10,877 |
| Effect of dilutive securities: | | | | |
| Employee stock-based awards | 50 | 117 | 62 | 128 |
| Diluted weighted average shares outstanding | 10,813 | 10,982 | 10,824 | 11,005 |
| Basic earnings per share | \$0.20 | \$0.20 | \$0.50 | \$0.56 |
| Diluted earnings per share | \$0.20 | \$0.20 | \$0.50 | \$0.55 |

Diluted weighted average shares outstanding for the three and six months ended June 30, 2013 exclude anti-dilutive stock options totaling 773,150 shares of common stock at a weighted average price of \$24.99. Diluted weighted average shares outstanding for the three and six months ended June 30, 2012 exclude anti-dilutive stock options totaling 805,000 shares of common stock at a weighted average price of \$25.38.

4. Investments

As noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, all of the Company's municipal bond investments are classified as held-to-maturity securities and reported at amortized cost pursuant to Accounting Standards Codification ("ASC") 320, *Investments – Debt and Equity Securities* ("ASC 320") as the Company has the intent and ability to hold all security investments to maturity.

Below is a summary of the amortized cost and estimated market values of the Company's investment securities as of as of June 30, 2013 and December 31, 2012.

| | June 30, 2013 | | December 31, 2012 | |
|---------------------------------|------------------------|-----------------|----------------------|-----------------|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| | (Dollars in thousands) | | | |
| Municipal bonds: | | | | |
| Current | \$6,981 | \$7,049 | \$8,004 | \$8,117 |
| Due from one through five years | 22,569 | 23,586 | 25,384 | 26,620 |
| Due from six through ten years | 8,346 | 8,963 | 10,832 | 11,756 |
| Total | \$37,896 | \$39,598 | \$44,220 | \$46,493 |

The unrealized gains and losses on investment securities as of June 30, 2013 and December 31, 2012 were as follows:

| | June 30, 2013 | | December 31, 2012 | |
|-----------------|------------------------|-------------------|-------------------|-------------------|
| | Unrealized Gains | Unrealized Losses | Unrealized Gains | Unrealized Losses |
| | (Dollars in thousands) | | | |
| Municipal bonds | \$ 1,902 | \$ 200 | \$ 2,473 | \$ 200 |

The estimated market values provided are level 2 valuations as defined by ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). The Company reviewed its portfolio of investments as of June 30, 2013 and determined that no other-than-temporary market value impairment exists.

On May 1, 2013, the Company purchased a 50% interest in a building in Montreal, Canada for approximately \$3.2 million. This building serves as the Company's Canadian office and distribution center. This real estate investment was accounted for as an equity-method investment under ASC 323, *Investments - Equity Method and Joint Ventures* ("ASC 323") and is included within other assets in the Consolidated Condensed Balance Sheets (Unaudited).

5. Intangible Assets

The Company's indefinite-lived and amortizable intangible assets as recorded in the Consolidated Condensed Balance Sheets (Unaudited) consisted of the following as of June 30, 2013:

| | June 30, 2013 | | | |
|--|-----------------------------|------------------------|--------------------------|------------|
| | Weighted Average Life (Yrs) | Gross Carrying Amount | Accumulated Amortization | Net |
| | | (Dollars in thousands) | | |
| Indefinite-lived intangible assets: | | | | |
| Goodwill | | \$ 11,112 | \$ - | \$ 11,112 |
| Trademarks | | 34,748 | - | 34,748 |
| Total indefinite-lived intangible assets | | \$ 45,860 | \$ - | \$ 45,860 |
| Amortizable intangible assets: | | | | |
| Non-compete agreement | 5 | \$ 200 | \$ (93) |) \$ 107 |
| Customer relationships | 15 | 3,500 | (545) |) 2,955 |
| Total amortizable intangible assets | | \$ 3,700 | \$ (638) |) \$ 3,062 |

The Company's indefinite-lived and amortizable intangible assets as recorded in the Consolidated Condensed Balance Sheets (Unaudited) consisted of the following as of December 31, 2012:

| | December 31, 2012 | | | |
|--|-------------------|------------------------|--------------|-----------|
| | Weighted | Gross | | |
| | Average | Carrying | Accumulated | Net |
| | Life (Yrs) | Amount | Amortization | |
| | | (Dollars in thousands) | | |
| Indefinite-lived intangible assets: | | | | |
| Goodwill | | \$11,112 | \$ - | \$11,112 |
| Trademarks | | 34,748 | - | 34,748 |
| Total indefinite-lived intangible assets | | \$45,860 | \$ - | \$45,860 |
| Amortizable intangible assets: | | | | |
| Non-compete agreement | 5 | \$200 | \$ (73 |) \$127 |
| Customer relationships | 15 | 3,500 | (428 |) 3,072 |
| Total amortizable intangible assets | | \$3,700 | \$ (501 |) \$3,199 |

The Company's amortizable intangible assets are included within other assets in the Consolidated Condensed Balance Sheets (Unaudited).

6. Segment Information

The Company has two reportable segments: North American wholesale operations (“wholesale”) and North American retail operations (“retail”). The chief operating decision maker, the Company’s Chief Executive Officer, evaluates the performance of its segments based on earnings from operations and accordingly, interest income or expense, other income or expense, and income taxes are not allocated to the segments. The “other” category in the tables below includes the Company’s wholesale and retail operations in Australia, South Africa, Asia Pacific and Europe, which do not meet the criteria for separate reportable segment classification. Summarized segment data for the three and six months ended June 30, 2013 and 2012 was as follows:

Three Months Ended

| June 30, | Wholesale | Retail | Other | Total |
|--------------------------|------------------------|---------|----------|----------|
| | (Dollars in thousands) | | | |
| 2013 | | | | |
| Product sales | \$46,858 | \$5,383 | \$12,174 | \$64,415 |
| Licensing revenues | 626 | - | - | 626 |
| Net sales | \$47,484 | \$5,383 | \$12,174 | \$65,041 |
| Earnings from operations | \$2,179 | \$584 | \$917 | \$3,680 |
| 2012 | | | | |
| Product sales | \$43,076 | \$5,589 | \$11,129 | \$59,794 |
| Licensing revenues | 539 | - | - | 539 |
| Net sales | \$43,615 | \$5,589 | \$11,129 | \$60,333 |
| Earnings from operations | \$2,092 | \$37 | \$1,273 | \$3,402 |

Six Months Ended

| June 30, | Wholesale | Retail | Other | Total |
|--------------------------|------------------------|----------|----------|-----------|
| | (Dollars in thousands) | | | |
| 2013 | | | | |
| Product sales | \$101,507 | \$11,131 | \$24,773 | \$137,411 |
| Licensing revenues | 1,220 | - | - | 1,220 |
| Net sales | \$102,727 | \$11,131 | \$24,773 | \$138,631 |
| Earnings from operations | \$5,911 | \$1,026 | \$1,431 | \$8,368 |
| 2012 | | | | |
| Product sales | \$98,978 | \$11,249 | \$24,156 | \$134,383 |
| Licensing revenues | 1,264 | - | - | 1,264 |
| Net sales | \$100,242 | \$11,249 | \$24,156 | \$135,647 |
| Earnings from operations | \$6,562 | \$32 | \$2,641 | \$9,235 |

7. Employee Retirement Plans

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------------|-------|------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in thousands) | | | |
| Benefits earned during the period | \$447 | \$369 | \$832 | \$768 |
| Interest cost on projected benefit obligation | 608 | 573 | 1,186 | 1,175 |
| Expected return on plan assets | (525) | (492) | (1,044) | (974) |
| Net amortization and deferral | 441 | 430 | 822 | 900 |
| Net pension expense | \$971 | \$880 | \$1,796 | \$1,869 |

The Company expects to make pension contributions totaling approximately \$1.6 million during 2013.

8. Stock-Based Compensation Plans

During the three and six months ended June 30, 2013, the Company recognized approximately \$317,000 and \$633,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in years 2009 through 2012. During the three and six months ended June 30, 2012, the Company recognized approximately \$299,000 and \$598,000, respectively, of compensation expense associated with stock option and restricted stock awards granted in years 2008 through 2011.

The following table summarizes the stock option activity under the Company's plans for the six month period ended June 30, 2013:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value* |
|----------------------------------|------------|--|--|----------------------------------|
| Outstanding at December 31, 2012 | 1,265,792 | \$ 22.76 | | |
| Exercised | (168,176) | \$ 16.82 | | |
| Forfeited or expired | (4,700) | \$ 24.07 | | |
| Outstanding at June 30, 2013 | 1,092,916 | \$ 23.67 | 3.1 | \$2,287,000 |
| Exercisable at June 30, 2013 | 537,787 | \$ 23.47 | 1.8 | \$1,543,000 |

* The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between the market value of the Company's stock on June 28, 2013, the last trading day of the quarter, of \$25.20 and the exercise price multiplied by the number of in-the-money outstanding and exercisable stock options.

The following table summarizes the Company's stock option activity for the three and six months ended June 30, 2013 and 2012:

| | Three Months Ended June 30, 2013 | | Six Months Ended June 30, 2012 | |
|---|---|---------|--------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in thousands) | | | |
| Total intrinsic value of stock options exercised | \$111 | \$1,147 | \$1,166 | \$1,204 |
| Cash received from stock option exercises | \$329 | \$1,430 | \$2,828 | \$1,566 |
| Income tax benefit from the exercise of stock options | \$44 | \$447 | \$455 | \$469 |

The following table summarizes the Company's restricted stock award activity for six month period ended June 30, 2013:

| Shares of | Weighted Average | Weighted Average Remaining | Aggregate |
|-----------|---------------------|----------------------------------|-----------|
|-----------|---------------------|----------------------------------|-----------|

| | Restricted Stock | Grant Date Fair Value | Contractual Term (Years) | Intrinsic Value* |
|---------------------------------|---------------------|--------------------------------|--------------------------------|---------------------|
| Non-vested at December 31, 2012 | 42,575 | \$ 23.87 | | |
| Issued | - | - | | |
| Vested | - | - | | |
| Forfeited | - | - | | |
| Non-vested at June 30, 2013 | 42,575 | \$ 23.87 | 2.6 | \$ 1,073,000 |

* The aggregate intrinsic value of non-vested restricted stock was calculated using the market value of the Company's stock on June 28, 2013, the last trading day of the quarter, of 25.20 multiplied by the number of non-vested restricted shares outstanding.

9. Short-Term Borrowings

At June 30, 2013, the Company had a \$60 million unsecured revolving line of credit, with \$20 million of bank borrowings outstanding at an interest rate of approximately 1.2%. The Company's borrowing facility includes one financial covenant that specifies a minimum level of net worth. The Company was in compliance with the covenant at June 30, 2013. The line of credit agreement expired on April 30, 2013 and was renewed for another term that expires on April 30, 2014, at essentially the same terms as the prior agreement.

10. Contingent Consideration

Contingent consideration is comprised of two contingent payments that the Company is obligated to pay the former shareholders of The Combs Company (“Bogs”) two and five years following the Bogs acquisition date (in 2013 and 2016). The estimate of contingent consideration is formula-driven and is based on Bogs achieving certain levels of gross margin dollars between January 1, 2011 and December 31, 2015. The first payment was paid to the former owners on March 28, 2013. In accordance with ASC 805, the Company remeasures its estimate of the fair value of the contingent payments at each reporting date. The change in fair value is recognized in earnings.

The Company’s estimate of the fair value of the contingent payments as recorded in the Consolidated Condensed Balance Sheets (Unaudited) was as follows:

| | June 30, 2013 | December 31, 2012 |
|--------------------------------|---------------------------|-------------------------|
| | (Dollars in thousands) | |
| Current portion | \$- | \$ 1,270 |
| Long-term portion | 5,015 | 4,991 |
| Total contingent consideration | \$5,015 | \$ 6,261 |

The fair value of the contingent payments was recorded at present value. Accordingly, the two components of the change in contingent consideration between December 31, 2012 and June 30, 2013 were the payment to the former owners of \$1,270,000 and interest expense of \$24,000.

The current portion of contingent consideration was recorded within accrued liabilities in the Consolidated Condensed Balance Sheets (Unaudited). The long-term portion was recorded within other long-term liabilities in the Consolidated Condensed Balance Sheets (Unaudited). The total contingent consideration has been assigned to the Company’s wholesale segment.

The fair value measurement of the contingent consideration is based on significant inputs not observed in the market and thus represents a level 3 valuation as defined by ASC 820.

11. Comprehensive Income

Comprehensive income for the three and six months ended June 30, 2013 and 2012 was as follows:

| | Three Months Ended June 30, 2013 | | Six Months Ended June 30, 2012 | |
|---|--|---------|--------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in thousands) | | | |
| Net earnings | \$2,265 | \$2,552 | \$5,390 | \$6,607 |
| Foreign currency translation adjustments | (1,551) | (743) | (2,027) | (194) |
| Pension liability, net of tax of \$172, \$178, \$320, and \$361, respectively | 268 | 279 | 501 | 565 |
| Total comprehensive income | \$982 | \$2,088 | \$3,864 | \$6,978 |

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

| | June 30, 2013 | December 31, 2012 |
|--|------------------------|-------------------------|
| | (Dollars in thousands) | |
| Foreign currency translation adjustments | \$(681) | \$681 |
| Pension liability, net of tax | (12,694) | (13,195) |
| Total accumulated other comprehensive loss | \$(13,375) | \$(12,514) |

12. Equity

A reconciliation of the Company's equity for the six months ended June 30, 2013 is as follows:

| | Common Stock | Capital in Excess of Par Value | Reinvested Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interest |
|--|------------------------|---|------------------------|---|----------------------------|
| | (Dollars in thousands) | | | | |
| Balance, December 31, 2012 | \$ 10,831 | \$ 26,184 | \$ 149,664 | \$ (12,514) | \$ 7,224 |
| Net earnings | - | - | 5,405 | - | (15) |
| Foreign currency translation adjustments | - | - | - | (1,362) | (665) |
| Pension liability adjustment, net of tax | - | - | - | 501 | - |
| Cash dividends declared | - | - | (1,945) | - | - |
| Stock options exercised | 168 | 2,660 | - | - | - |
| Stock-based compensation expense | - | 633 | - | - | - |
| Income tax benefit from stock options exercised | - | 455 | - | - | - |
| Shares purchased and retired | (195) | - | (4,428) | - | - |
| Balance, June 30, 2013 | \$ 10,804 | \$ 29,932 | \$ 148,696 | \$ (13,375) | \$ 6,544 |

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

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 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, 2012.

GENERAL

The Company designs and markets quality and innovative footwear for men, women and children under a portfolio of well-recognized brand names including: "Florsheim," "Nunn Bush," "Stacy Adams," "BOGS," "Rafters," and "Umi." Inventories are purchased from third-party overseas manufacturers. The majority of foreign-sourced purchases are denominated in U.S. dollars.

The Company has two reportable segments, North American wholesale operations ("wholesale") and North American retail operations ("retail"). In the wholesale segment, the Company's products are sold to leading footwear, department, and specialty stores, primarily in the United States and Canada. As of June 30, 2013, the Company also had licensing agreements with third parties who sell its branded apparel, accessories and specialty footwear in the United States, as well as its footwear in Mexico and certain markets overseas. Licensing revenues are included in the Company's wholesale segment. The Company's retail segment consisted of 19 Company-owned retail stores in the United States and an Internet business as of June 30, 2013. Sales in retail outlets are made directly to consumers by Company employees.

The Company's "other" operations include the Company's wholesale and retail businesses in Australia, South Africa, Asia Pacific (collectively, "Florsheim Australia") and Europe ("Florsheim Europe"). The majority of the Company's operations are in the United States, and its results are primarily affected by the economic conditions and the retail environment in the United States.

EXECUTIVE OVERVIEW

Second Quarter Highlights

Consolidated net sales for the second quarter of 2013 were \$65.0 million, up 8% over last year's second quarter net sales of \$60.3 million. Earnings from operations increased 8% to \$3.7 million this quarter, from \$3.4 million in 2012. Consolidated net earnings attributable to Weyco Group, Inc. and diluted earnings per share were flat at \$2.2 million and \$0.20 per share, respectively, for the second quarter of 2013 compared to the same period in 2012. Earnings for last year's second quarter included approximately \$700,000 (\$410,000 after tax, or \$0.04 per diluted share) of income resulting from a reduction in the contingent consideration liability. See Note 10.

The majority of the increase in consolidated net sales came from the Company's wholesale segment. Wholesale net sales increased \$3.9 million this quarter compared to the same period last year. This increase was primarily due to higher sales of the Nunn Bush and Florsheim brands.

Excluding the \$700,000 prior year adjustment, consolidated earnings from operations would have been up approximately \$1 million, or 57%, for the quarter. This increase was driven by strong performance in the Company's wholesale and retail segments, offset by lower earnings from operations from the Company's other businesses.

Year to Date Highlights

Consolidated net sales for the first half of 2013 were \$138.6 million, up 2% over last year's year to date net sales of \$135.6 million. Earnings from operations decreased 9% to \$8.4 million in the first six months of 2013, from \$9.2 million in 2012. Consolidated net earnings attributable to Weyco Group, Inc. for the six months ended June 30, 2013 were \$5.4 million, compared to \$6.1 million last year. Diluted earnings per share to date through June 30, 2013 were \$0.50 per share, down from \$0.55 per share for the same period in 2012. Last year's year to date earnings included approximately \$1.2 million (\$710,000 after tax, or \$0.06 per diluted share) of income resulting from the contingent consideration adjustments described above.

The majority of the increase in consolidated net sales for the six months ended June 30, 2013 came from Company's wholesale segment. Wholesale net sales increased \$2.5 million in the first six months of 2013, compared to the same period last year. This increase was primarily due to higher sales volumes across several of the Company's major wholesale brands, and increased Bogs sales volumes in Canada due to the takeover of Bogs Canadian distribution in June 2012.

Excluding the \$1.2 million prior year adjustment, consolidated earnings from operations would have been up approximately \$400,000 in the first six months of 2013, compared to the same period in 2012. This increase was driven by strong performance in the Company's wholesale and retail segments, offset by lower earnings from operations from the Company's other businesses.

Financial Position Highlights

At June 30, 2013 cash and marketable securities totaled \$45 million and outstanding debt totaled \$20 million. At December 31, 2012, cash and marketable securities totaled \$62 million and outstanding debt totaled \$45 million. The Company's main sources of cash for the first six months of 2013 were from operations, the maturities of marketable securities and proceeds from stock options exercised. The Company's main uses of cash during the year to date period were for common stock repurchases, payments on the revolving line of credit, and a payment to the former shareholders of Bogs. The Company also paid approximately \$3.2 million for a 50% interest in a building in Montreal, Canada on May 1, 2013.

SEGMENT ANALYSIS

Net sales and earnings from operations for the Company's segments in the three and six months ended June 30, 2013 and 2012 were as follows:

| | Three Months Ended June 30, 2013 | | | % | Six Months Ended June 30, 2013 | | | % |
|--------------------------|-------------------------------------|----------|--------|---|--------------------------------------|-----------|--------|---|
| | 2013 | 2012 | Change | | 2013 | 2012 | Change | |
| | (Dollars in thousands) | | | | | | | |
| Net Sales | | | | | | | | |
| North American Wholesale | \$47,484 | \$43,615 | 9 | % | \$102,727 | \$100,242 | 2 | % |
| North American Retail | 5,383 | 5,589 | -4 | % | 11,131 | 11,249 | -1 | % |
| Other | 12,174 | 11,129 | 9 | % | 24,773 | 24,156 | 3 | % |
| Total | \$65,041 | \$60,333 | 8 | % | \$138,631 | \$135,647 | 2 | % |
| Earnings from Operations | | | | | | | | |
| North American Wholesale | \$2,179 | \$2,092 | 4 | % | \$5,911 | \$6,562 | -10 | % |
| North American Retail | 584 | 37 | | * | 1,026 | 32 | | * |
| Other | 917 | 1,273 | -28 | % | 1,431 | 2,641 | -46 | % |
| Total | \$3,680 | \$3,402 | 8 | % | \$8,368 | \$9,235 | -9 | % |

* Not meaningful.

North American Wholesale Segment

Net Sales

Net sales in the Company's North American wholesale segment for the three and six months ended June 30, 2013 and 2012 were as follows:

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North American Wholesale Segment Net Sales

| | Three Months Ended June 30, | | | % | Six Months Ended June 30, | | | % |
|--|-----------------------------|-----------|--------|---|---------------------------|------------|--------|---|
| | 2013 | 2012 | Change | | 2013 | 2012 | Change | |
| | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
| North American Net Sales | | | | | | | | |
| Stacy Adams | \$ 13,484 | \$ 13,172 | 2 | % | \$ 32,200 | \$ 31,601 | 2 | % |
| Nunn Bush | 17,132 | 15,410 | 11 | % | 33,267 | 33,545 | -1 | % |
| Florsheim | 12,406 | 10,550 | 18 | % | 24,893 | 22,616 | 10 | % |
| BOGS/Rafters | 3,245 | 3,538 | -8 | % | 9,548 | 9,372 | 2 | % |
| Umi | 591 | 406 | 46 | % | 1,599 | 1,844 | -13 | % |
| Total North American Wholesale | \$ 46,858 | \$ 43,076 | 9 | % | \$ 101,507 | \$ 98,978 | 3 | % |
| Licensing | 626 | 539 | 16 | % | 1,220 | 1,264 | -3 | % |
| Total North American Wholesale Segment | \$ 47,484 | \$ 43,615 | 9 | % | \$ 102,727 | \$ 100,242 | 2 | % |

The increase in Nunn Bush second quarter net sales was primarily due to higher sales volumes at department stores and national shoe chains. The increases in Florsheim second quarter and year to date net sales were also driven by higher sales at department stores and national shoe chains. The Company took over the distribution of Bogs in Canada from a third-party licensee effective June 1, 2012. As a result, Bogs net sales increased due to having new sales in Canada for six months in 2013, compared to one month of such sales in 2012. This increase was largely offset by decreased sales of Bogs in the United States in 2013. Management believes that Bogs net sales in the United States decreased because retailers continued to sell inventory carried over from the prior mild winter rather than buying new stock.

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

Earnings from Operations

Earnings from operations in the North American wholesale segment were \$2.2 million in the second quarter of 2013, compared to \$2.1 million in 2012. For the six months ended June 30, 2013, earnings from operations for the wholesale segment were \$5.9 million, down from \$6.6 million in the same period last year. Last year's earnings from operations for the three and six months ended June 30, 2012 included approximately \$700,000 and \$1.2 million, respectively, of income resulting from the contingent consideration adjustments described above. No significant adjustment was made to the contingent consideration in the first six months of 2013.

Wholesale gross earnings increased by \$1.4 million and \$1.3 million for the three and six months ended June 30, 2013, respectively, due to higher sales volumes and higher gross earnings as a percent of net sales. Wholesale gross earnings were 29.9% of net sales in the second quarter of 2013 compared with 29.3% in last year's second quarter. For the six months ended June 30, wholesale gross earnings were 30.5% of net sales in 2013 compared with 30.0% in 2012.

The Company's cost of sales does not include distribution costs (e.g., receiving, inspection or warehousing costs). Distribution costs for the three month periods ended June 30, 2013 and 2012 were \$2.6 million and \$2.4 million, respectively. For the six month periods ended June 30, 2013 and 2012, distribution costs were \$5.5 million and \$4.9 million, respectively. These costs were included in selling and administrative expenses. The Company's gross earnings may not be comparable to other companies, as some companies may include distribution costs in cost of sales.

North American wholesale segment selling and administrative expenses include, and are primarily related to, distribution costs, salaries and commissions, advertising costs, employee benefit costs and depreciation. As a percent of net sales, wholesale selling and administrative expenses were 26% this quarter compared with 25% in the same quarter last year. For the six months ended June 30, wholesale selling and administrative expenses were 25% of net sales in 2013 and 24% of net sales in 2012. Last year's selling and administrative expenses for the three and six months ended June 30, 2012 were reduced by the contingent consideration adjustments described above. Excluding these adjustments, selling and administrative expenses as a percent of net sales for the quarter and year to date periods would have been flat between years.

North American Retail Segment

Net Sales

Net sales in the Company's North American retail segment decreased approximately \$200,000 or 4% in the second quarter of 2013, compared to the same period last year and decreased approximately \$100,000 or 1% for the six months ended June 30, 2013 compared to the same period last year. There were seven fewer domestic retail stores at June 30, 2013 than at June 30, 2012, as the Company has been closing unprofitable stores. Same store sales were up 6% for the quarter and up 8% for the first half of 2013, primarily due to increased sales volumes in the Company's Internet business.

Earnings from Operations

Retail earnings from operations increased by \$550,000 and \$1 million for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. These increases were due to higher same store sales as well as the closing of underperforming stores since June 30, 2012. Gross earnings as a percent of net sales increased to 65% this quarter, from 64% in last year's second quarter. For the six months ended June 30, retail gross earnings as a percent of net sales were 65% in 2013, compared to 64% in 2012.

Selling and administrative expenses for the retail segment include, and are primarily related to, rent and occupancy costs, employee costs and depreciation. Selling and administrative expenses as a percent of net sales were 55% in the second quarter of 2013 and 64% in last year's second quarter. To date in 2013, selling and administrative expenses were 56% of net sales compared to 64% of net sales in the first half of 2012. The decreases in selling and administrative expenses relative to net sales for the quarter and six months ended June 30 were primarily due to the closing of unprofitable stores since last year.

Other

The Company's other net sales increased 9% for the quarter and 3% for the first half of the year compared to the same periods last year. The majority of the Company's other net sales were generated by Florsheim Australia. For the quarter and six months ended June 30, 2013, Florsheim Australia's net sales were up 7% and 3%, respectively. The quarter and year to date increases were achieved through higher sales in Florsheim Australia's retail business, slightly offset by lower sales in Florsheim Australia's wholesale business. Florsheim Australia's retail net sales were up 13% and 10%, respectively, for the three and six months ended June 30, 2013, compared to 2012. Florsheim Australia's

wholesale net sales were down 1% and 8%, respectively, for the three and six months ended June 30, 2013, compared to 2012. Florsheim Europe's net sales increased for the quarter and first six months of 2013 due to higher wholesale sales.

Collectively, the earnings from operations of the Company's other businesses for the quarter and six months ended June 30, 2013 decreased approximately \$350,000 and \$1.2 million, respectively, compared to 2012. These decreases were mainly due to higher retail selling and administrative expenses. Retail selling and administrative expenses increased due to new retail locations in Australia and Asia. There were also higher selling and administrative expenses in Florsheim Australia's wholesale business to accommodate the Bogs expansion in Australia.

Other income and expense and taxes

Interest income for the quarter and six months ended June 30, 2013 was down approximately \$100,000 and \$170,000, respectively, compared to the same periods last year, primarily due to a lower average investment balance this year compared to last year. Interest expense was relatively flat for the quarter and year to date periods. Other expense for the quarter and six months ended June 30, 2013 increased approximately \$420,000 and \$560,000, respectively, compared to the same periods last year, primarily due to foreign exchange losses resulting from the revaluation of intercompany loans between the Company's North American wholesale segment and Florsheim Australia.

The Company's effective tax rate for the quarter ended June 30, 2013 was 34% as compared to 30% for the same period in 2012.