

WEYCO GROUP INC
Form 10-K
March 15, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549**

FORM 10-K

x

Annual report pursuant to section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2010, or

o

Transition report pursuant to section 13 or 15(d)
of the Securities Exchange Act of 1934

For 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.)

WEYCO GROUP, INC.

**333 W. Estabrook Boulevard,
P. O. Box 1188,
Milwaukee, WI 53201**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, include area code: **(414) 908-1600**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock \$1.00 par value per share	The NASDAQ Stock Market
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in any definitive proxy or information statements incorporated by reference or in any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of the close of business on June 30, 2010 was \$160,416,000. This was based on the closing price of \$22.78 per share as reported by NASDAQ on June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 1, 2011, there were outstanding 11,357,311 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for its Annual Meeting of Shareholders scheduled for May 3, 2011, are incorporated by reference in Part III of this report.

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**CAUTIONARY STATEMENTS FOR FORWARD-LOOKING
INFORMATION**

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.

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PART 1

ITEM 1 BUSINESS

The Company is a Wisconsin corporation incorporated in the year 1906 as Weyenberg Shoe Manufacturing Company. Effective April 25, 1990, the name of the corporation was changed to Weyco Group, Inc.

Weyco Group, Inc. and its subsidiaries (the Company) engage in one line of business, the distribution of men's footwear. The principal brands of shoes sold by the Company are Florsheim, Nunn Bush, Stacy Adams, and Umi. The Company also has other brands, including Brass Boot and Nunn Bush NXXT, which are included within Nunn Bush sales figures, SAO by Stacy Adams, which is included within Stacy Adams sales, and Florsheim by Duckie Brown which was introduced in 2009 and is included within Florsheim sales. Trademarks maintained by the Company on these names are important to the business. The Company's products consist of both mid-priced quality leather dress shoes which would be worn as a part of more formal and traditional attire and quality casual footwear of man-made materials or leather which would be appropriate for leisure or less formal occasions. The Company's footwear, and that of the industry in general, is available in a broad range of sizes and widths, primarily purchased to meet the needs and desires of the American male population.

On March 2, 2011, the Company acquired 100% of the outstanding shares of The Combs Company (Combs). Combs designs and markets boots, shoes and sandals for men, women and children, under the BOGS and Rafters brand names. Their products are sold across the agricultural, industrial, outdoor specialty, outdoor sport, lifestyle and fashion markets. Management believes these brands fit well into the Company's strategy to diversify its product mix and enhance its share of the casual footwear market. See Note 19 of the Notes to Consolidated Financial Statements for more information regarding this acquisition.

The Company purchases finished shoes from outside suppliers, primarily located in China and India. Almost all of these foreign-sourced purchases are denominated in U.S. dollars. Historically, there have been few inflationary pressures in the shoe industry and leather and other component prices have been stable. However, since 2007 there have been upward cost pressures from the Company's suppliers, related to a variety of factors, including higher labor, materials and freight costs and changes in the strength of the U.S. dollar. In certain circumstances, the Company is able to increase prices to offset the effect of these increases in costs.

The Company's business is separated into two reportable segments—the North American wholesale segment (wholesale) and the North American retail segment (retail). The Company also has other wholesale and retail businesses overseas which include its businesses in Australia, South Africa and Asia Pacific (Florsheim Australia) and its wholesale and retail businesses in Europe.

In 2010, 2009 and 2008 sales of the North American wholesale segment, which include both wholesale sales and licensing revenues, constituted approximately 72%, 75% and 85% of total sales, respectively. At wholesale, shoes are marketed throughout the United States and Canada in more than 10,000 shoe, clothing and department stores. In 2010, 2009 and 2008, sales to the Company's largest customer, JCPenney, were 12%, 13% and 14%, respectively, of total sales. The Company employs traveling salespeople who sell the Company's products to retail outlets. Shoes are shipped to these retailers primarily from the Company's distribution center in Glendale, Wisconsin. Although there is no clearly identifiable seasonality in the men's footwear business, new styles are historically developed and shown twice each year, in spring and fall. In accordance with industry practices, the Company is required to carry significant amounts of inventory to meet customer delivery requirements and periodically provides extended payment terms to customers. The Company has licensing agreements with third parties who sell its branded shoes outside of the United

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States and Canada, as well as licensing agreements with speciality shoe, apparel and accessory manufacturers in the United States. Licensing revenues were approximately 1% of total sales in each of the years 2010 and 2009 and 2% of total sales in 2008.

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The North American retail segment constituted approximately 10% of total sales in each of the years 2010 and 2009 and 12% of total sales in 2008. As of December 31, 2010, the retail segment consisted of 35 company-operated stores in the United States and an Internet business. Sales in retail stores are made directly to the consumer by Company employees. In addition to the sale of the Company's brands of footwear in these retail stores, other branded footwear and accessories are also sold in order to provide the consumer with a more complete selection.

Sales of the Company's other businesses represented 18%, 15% and 3% of total sales in 2010, 2009, and 2008, respectively. These sales relate to the Company's wholesale and retail operations in Australia, South Africa, Asia Pacific and Europe. The increase in 2009 was due to the Company's acquisition of Florsheim Australia in January 2009 (see Note 3 of the Notes to Consolidated Financial Statements).

As of December 31, 2010, the Company had a backlog of \$28 million of confirmed orders compared with \$27 million as of December 31, 2009. This does not include unconfirmed blanket orders from customers, which account for the majority of the Company's orders, particularly from its larger accounts. All orders are expected to be filled within one year.

As of December 31, 2010, the Company employed 562 persons, of which 16 were members of collective bargaining units. Future wage and benefit increases under the collective bargaining contracts are not expected to have a significant impact on the future operations or financial position of the Company. During 2009, 166 employees were added as a result of the Company's acquisition of Florsheim Australia (see Note 3 of the Notes to Consolidated Financial Statements).

Price, quality, service and brand recognition are all important competitive factors in the shoe industry and the Company has been recognized as a leader in all of them. The Company does not engage in any specific research and development activities. However, the Company does have a design department that is continually reviewing and updating product designs. Compliance with environmental regulations historically has not had, and is not expected to have, a material adverse effect on the Company's results of operations, financial position or cash flows.

The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports upon written or telephone request. Investors can also access these reports through the Company's website, www.weycogroup.com, as soon as reasonably practical after the Company files or furnishes those reports to the Securities and Exchange Commission (SEC). The information on the Company's website is not a part of this filing. Also available on the Company's website are various documents relating to the corporate governance of the Company, including its Code of Ethics.

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ITEM 1A RISK FACTORS

There are many factors that affect the Company's business, many of which are beyond the Company's control. The following is a description of some of the significant factors that might materially and adversely affect the Company's business, results of operations and financial condition.

Changes in the U.S. and global economy may adversely affect the Company.

Spending patterns in the footwear market, particularly those in the moderate-priced market in which a good portion of the Company's products compete, have historically been impacted by consumers' disposable income. As a result, the success of the Company is impacted by changes in general economic conditions, especially in the United States. Factors affecting discretionary income for the moderate consumer include, among others, general business conditions, gas and energy costs, employment, consumer confidence, interest rates and taxation. Additionally, the economy and consumer behavior can impact the financial strength and buying patterns of retailers, which can also affect the Company's results. The continued weak economic conditions, or a worsening of conditions, could adversely affect the Company's sales volume and overall performance.

Changes in the U.S. and global credit markets could adversely affect the Company's business.

Global financial markets recently have been, and continue to be, unstable and unpredictable, which has generally resulted in a tightening in the credit markets with heightened lending standards and terms. This volatility and instability in the credit markets poses various risks to the Company, including negatively impacting retailer and consumer confidence, limiting the Company's customers' access to credit markets and interfering with the normal commercial relationships between the Company and its customers. Increased credit risks associated with the financial condition of some customers in the retail industry affects their level of purchases from the Company and the collectability of amounts owed to the Company, and in some cases, causes the Company to reduce or cease shipments to certain customers who no longer meet the Company's credit requirements.

In addition, weak economic conditions and unstable and volatile financial markets could lead to certain of the Company's customers experiencing cash flow problems, which may force them into higher default rates or to file for bankruptcy protection which may increase the Company's bad debt expense or further negatively impact the Company's business.

The Company is subject to risks related to the retail environment that could adversely impact the Company's business.

The Company is subject to risks associated with doing business in the retail environment, primarily in the United States. The U.S. retail industry has experienced a growing trend toward consolidation of large retailers. The merger of major retailers could result in the Company losing sales volume or increasing its concentration of business with a few large accounts, resulting in reduced bargaining power on the part of the Company, which could increase pricing

pressures and lower the Company's margins.

Changes in consumer preferences could negatively impact the Company.

The Company's success is dependent upon its ability to accurately anticipate and respond to rapidly changing fashion trends and consumer preferences. Failure to predict or respond to current trends or preferences could have an adverse impact on the Company's sales volume and overall performance.

The Company relies on independent foreign sources of production and the availability of leather, rubber and other raw materials which could have unfavorable effects on the Company's business.

The Company purchases its products entirely from independent foreign manufacturers, primarily in China and India. Although the Company has good working relationships with its manufacturers, the Company does not have long-term contracts with them. Thus, the Company could experience

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increases in manufacturing costs, disruptions in the timely supply of products or unanticipated reductions in manufacturing capacity, any of which could negatively impact the Company's business, results of operations and financial condition. The Company has the ability to move product to different suppliers; however, the transition may not occur smoothly and/or quickly and the Company could miss customer delivery date requirements and, consequently, could lose orders. Additional risks associated with foreign sourcing that could negatively impact the Company's business include adverse changes in foreign economic conditions, import regulations, restrictions on the transfer of funds, duties, tariffs, quotas and political or labor interruptions, disruptions at U.S. or foreign ports or other transportation facilities, foreign currency fluctuations, expropriation and nationalization.

The Company's use of foreign sources of production results in long production and delivery lead times. Therefore, the Company needs to forecast demand at least five months in advance. If the Company's forecasts are wrong, it could result in the loss of sales if there is not enough product, or in reduced margins if there is excess inventory that needs to be sold at discounted prices.

Additionally, the Company's products depend on the availability of raw materials, especially leather and rubber. Any significant shortages of quantities or increases in the cost of leather or rubber could have a material adverse effect on the Company's business and results of operations.

The Company is subject to risks associated with its non-U.S. operations that could adversely affect its financial results.

As a result of the Company's global presence, a portion of the Company's revenues and expenses are denominated in currencies other than the U.S. dollar. The Company is therefore subject to foreign currency risks and foreign exchange exposure. The Company's primary exposures are to the Australian dollar and the Canadian dollar. Exchange rates can be volatile and could adversely impact the Company's financial results.

The Company operates in a highly competitive environment, which may result in lower prices and reduce its profits.

The men's footwear market is extremely competitive. The Company competes with manufacturers, distributors and retailers of men's shoes, certain of which are larger and have substantially greater resources than the Company has. The Company competes with these companies primarily on the basis of price, quality, service and brand recognition, all of which are important competitive factors in the shoe industry. The Company's ability to maintain its competitive edge depends upon these factors, as well as its ability to deliver new products at the best value for the consumer, maintain positive brand recognition, and obtain sufficient retail floor space and effective product presentation at retail. If the Company does not remain competitive, the Company's future results of operations and financial condition could decline.

The Company's business is dependent on information and communication systems, and significant interruptions could disrupt its business.

The Company accepts and fills the majority of its larger customers' orders through the use of Electronic Data Interchange (EDI). It relies on its warehouse management system to efficiently process orders. The corporate office

The Company relies on independent foreign sources of production and the availability of leather, rubber and other raw

relies on computer systems to efficiently process and record transactions. Significant interruptions in its information and communication systems from power loss, telecommunications failure or computer system failure could significantly disrupt the Company's business and operations.

The Company may not be able to successfully integrate new brands and businesses.

The Company intends to continue to look for new acquisition opportunities. That search could be unsuccessful and costs could be incurred in failed search efforts. When an acquisition occurs, the Company cannot guarantee that it would be able to successfully integrate the brand into its current operations, or that any acquired brand would achieve results in line with the Company's historical performance or its specific expectations for the brand.

TABLE OF CONTENTS**Loss of the services of the Company's top executives could adversely affect the business.**

Thomas W. Florsheim, Jr., the Company's Chairman and Chief Executive Officer, and John W. Florsheim, the Company's President and Chief Operating Officer, have a strong heritage within the Company and the footwear industry. They possess knowledge, relationships and reputations based on their lifetime exposure to and experience in the Company and the industry. The loss of either one or both of the Company's top executives could have an adverse impact on the Company's performance.

The limited public float and trading volume for the Company's stock may have an adverse impact on the stock price or make it difficult to liquidate.

The Company's common stock is held by a relatively small number of shareholders. The Florsheim family owns over 35% of the stock and one other institutional shareholder holds a significant block. Other officers, directors, and members of management own stock or have the potential to own stock through previously granted stock options and restricted stock. Consequently, the Company has a small float and low average daily trading volume. Future sales of substantial amounts of the Company's common stock in the public market, or the perception that these sales could occur, may adversely impact the market price of the stock and the stock could be difficult to liquidate.

ITEM 1B UNRESOLVED STAFF COMMENTS

None

ITEM 2 PROPERTIES

The following facilities were operated by the Company and its subsidiaries as of December 31, 2010:

Location	Character	Owned/ Leased	Square Footage	% Utilized
Glendale, Wisconsin	Two story office and distribution center	Owned	780,000	90 %
Montreal, Canada	Multistory office and distribution center	Leased (1)	42,400	100 %
Florence, Italy	One story office and distribution center	Leased (1)	19,400	100 %
Fairfield Victoria, Australia	Office and distribution center	Leased (1)	28,500	100 %
Strydom Park, South Africa	Distribution center Apparel	Leased (1)	3,700	100 %
Strydom Park, South Africa	Distribution center Footwear	Leased (1)	3,700	100 %
Hong Kong, China		Leased (1)	13,000	100 %

The Company may not be able to successfully integrate newbrands and businesses.

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	Office and distribution center			
Shenzhen, China	Distribution center	Leased	(1) 3,600	100 %

(1) Not material leases.

In addition to the above-described office and distribution facilities, the Company operates retail shoe stores under various rental agreements. All of these facilities are suitable and adequate for the Company's current operations. See Note 12 of the Notes to Consolidated Financial Statements and Item 1, Business, above.

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Not Applicable

ITEM 4 RESERVED**EXECUTIVE OFFICERS OF THE REGISTRANT**

Officer	Age	Office(s)	Served Since	Business Experience
Thomas W. Florsheim, Jr.	53	Chairman and Chief Executive Officer	1996	Chairman and Chief Executive Officer of the Company 2002 to present; President and Chief Executive Officer of the Company 1999 to 2002; President and Chief Operating Officer of the Company 1996 to 1999; Vice President of the Company 1988 to 1996 President, Chief Operating Officer and Assistant Secretary of the Company 2002 to present; Executive Vice President, Chief Operating Officer and Assistant Secretary of the Company 1999 to 2002; Executive Vice President of the Company 1996 to 1999; Vice President of the Company 1994 to 1996 Senior Vice President of the Company 2002 to present; Vice President of the Company 1971 to 2002 Senior Vice President, Chief Financial Officer and Secretary of the Company 2002 to present; Vice President, Chief Financial Officer and Secretary of the Company 1995 to 2002; Secretary/Treasurer of the Company 1993 to 1995
John W. Florsheim	47	President, Chief Operating Officer and Assistant Secretary	1996	
Peter S. Grossman	67	Senior Vice President, President, Nunn Bush Brand and Retail	1971	
John F. Wittkowske	51	Senior Vice President, Chief Financial Officer and Secretary	1993	

Thomas W. Florsheim, Jr. and John W. Florsheim are brothers, and Chairman Emeritus Thomas W. Florsheim is their father.

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PART II

**ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS AND ISSUER
PURCHASES OF EQUITY SECURITIES**

The shares of the Company's common stock are traded on the NASDAQ Stock Market (NASDAQ) under the symbol WEYS.

COMMON STOCK DATA

Quarter:	2010 Stock Prices		Cash Dividends Declared	2009 Stock Prices		Cash Dividends Declared
	High	Low		High	Low	
First	\$ 24.89	\$ 20.82	\$ 0.15	\$ 33.21	\$ 20.11	