WEYCO GROUP INC
Form 10-Q
November 08, 2007

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

(Mark One)

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

For the quarterly period ended September 30, 2007

Or

o 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	39-0702200
(State or other jurisdiction of incorporation or organization)	(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 x No o

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

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

As of November 5, 2007 the following shares were outstanding:

Common Stock, $1.00 par value	11,553,410	Shares

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

	September 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,423,770	$ 15,314,140
Marketable securities, at amortized cost	2,499,012	1,600,871
Accounts receivable, net	38,089,137	30,641,632
Inventories	45,307,078	51,000,849
Deferred income tax benefits	705,027	949,109
Prepaid expenses and other current assets	1,166,362	1,715,859
Total current assets	95,190,386	101,222,460
MARKETABLE SECURITIES, at amortized cost	44,759,685	40,361,296
OTHER ASSETS	9,094,678	8,725,346
PLANT AND EQUIPMENT, net	28,730,355	28,445,900
TRADEMARK	10,867,969	10,867,969
	$ 188,643,073	$ 189,622,971
LIABILITIES & SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Short-term borrowings	$ 5,528,380	$ 10,957,518
Accounts payable	8,768,857	12,398,740
Dividend payable	1,270,875	1,054,354
Accrued liabilities	9,310,892	8,430,267
Accrued income taxes	849,330	72,907
Total current liabilities	25,728,334	32,913,786
LONG-TERM PENSION LIABILITY	7,015,883	6,620,842
DEFERRED INCOME TAX LIABILITIES	1,834,695	1,915,869
SHAREHOLDERS' INVESTMENT:		
Common stock	11,553,410	9,129,256
Class B common stock	—	2,585,087
Capital in excess of par value	10,584,871	7,576,096
Reinvested earnings	137,249,323	134,264,076
Accumulated other comprehensive loss	(5,323,443)	(5,382,041)
Total shareholders investment	154,064,161	148,172,474
	$ 188,643,073	$ 189,622,971

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 EARNINGS
FOR THE PERIODS ENDED SEPTEMBER 30, 2007 AND 2006 (UNAUDITED)

	Three Months ended September 30,		Nine Months ended September 30,	
	2007	2006	2007	2006
NET SALES	$ 58,162,778	$ 56,084,718	$ 170,391,645	$ 160,484,367
COST OF SALES	36,345,977	35,484,325	106,830,085	101,391,210
Gross earnings	21,816,801	20,600,393	63,561,560	59,093,157
SELLING AND ADMINISTRATIVE EXPENSES	13,897,896	12,744,934	41,057,321	37,547,263
Earnings from operations	7,918,905	7,855,459	22,504,239	21,545,894
INTEREST INCOME	566,611	488,670	1,628,915	1,468,378
INTEREST EXPENSE	(79,546)	(145,271)	(287,690)	(442,565)
OTHER INCOME (EXPENSE), net	3,118	(5,720)	7,364	(2,248)
Earnings before provision for income taxes	8,409,088	8,193,138	23,852,828	22,569,459
PROVISION FOR INCOME TAXES	3,075,000	3,025,000	8,775,000	8,450,000
Net earnings	$ 5,334,088	$ 5,168,138	$ 15,077,828	$ 14,119,459
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	11,521,515	11,675,238	11,583,700	11,621,084
Diluted	11,973,467	12,098,045	12,036,286	12,031,126
EARNINGS PER SHARE				
Basic	$ .46	$ .44	$ 1.30	$ 1.21
Diluted	$ .45	$ .43	$ 1.25	$ 1.17
CASH DIVIDENDS PER SHARE	$ .11	$ .09	$ .31	$ .25

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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (UNAUDITED)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 15,077,828	$ 14,119,459
Adjustments to reconcile net earnings to net cash provided by operating activities –		
Depreciation	1,856,953	1,604,725
Amortization	65,185	54,613
Deferred income taxes	(16,092)	147,891
Stock-based compensation	218,214	—
Pension contribution	—	(1,000,000)
Pension expense	1,008,339	894,753
Gain on sale of assets	—	13
Increase in cash surrender value of life insurance	(388,890)	(376,605)
Changes in operating assets and liabilities -		
Accounts receivable	(7,447,505)	(7,142,029)
Inventories	5,693,771	(8,491,320)
Prepaids and other current assets	569,055	617,670
Accounts payable	(3,629,883)	(3,934,596)
Accrued liabilities and other	464,053	1,333,778
Accrued income taxes	803,423	(650,978)
Net cash provided by (used for) operating activities	14,274,451	(2,822,626)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(6,243,754)	(17,813,020)
Proceeds from maturities of marketable securities	882,039	6,112,114
Purchase of plant and equipment	(2,162,536)	(2,245,677)
Proceeds from sales of plant and equipment	62,000	996
Net cash used for investing activities	(7,462,251)	(13,945,587)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(3,384,870)	(2,665,206)
Shares purchased and retired	(8,856,879)	(3,124,644)
Proceeds from stock options exercised	1,847,220	1,828,579
Net (repayments) draws under revolving credit agreement	(5,429,138)	2,050,062
Income tax benefit from the exercise of stock options	1,121,097	1,198,462
Net cash used for financing activities	(14,702,570)	(712,747)
Net decrease in cash and cash equivalents	(7,890,370)	(17,480,960)
CASH AND CASH EQUIVALENTS at beginning of period	$ 15,314,140	$ 22,780,913
CASH AND CASH EQUIVALENTS at end of period	$ 7,423,770	$ 5,299,953
SUPPLEMENTAL CASH FLOW INFORMATION:		

Income taxes paid, net of refunds	$	6,897,595	$	7,638,064
Interest paid	$	319,649	$	443,781

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

NOTES:

1. **Financial Statements**

In the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial information have been made. The results of operations for the three months or nine months ended September 30, 2007, are not necessarily indicative of results for the full year.

2. **Earnings Per Share**

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Numerator:				
Net Earnings	$ 5,334,088	$ 5,168,138	$ 15,077,828	$ 14,119,459
Denominator:				
Basic weighted average shares	11,521,515	11,675,238	11,583,700	11,621,084
Effect of dilutive securities:				
Employee stock options	451,952	422,807	452,586	410,042
Diluted weighted average shares	11,973,467	12,098,045	12,036,286	12,031,126
Basic earnings per share	$ .46	$ .44	$ 1.30	$ 1.21
Diluted earnings per share	$ .45	$ .43	$ 1.25	$ 1.17

Diluted weighted average shares outstanding for the quarter and nine months ended September 30, 2007 and 2006 included all outstanding options, as none were antidilutive.

3. **Segment Information**

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

		Wholesale Distribution		Retail		Total
Three Months Ended September 30, 2007						
Product sales	$	50,504,000	$	6,852,000	$	57,356,000
Licensing revenues		807,000		—		807,000
Net sales		51,311,000		6,852,000		58,163,000
Earnings from operations		7,314,000		605,000		7,919,000
2006						
Product sales	$	48,472,000	$	6,697,000	$	55,169,000
Licensing revenues		916,000		—		916,000
Net sales		49,388,000		6,697,000		56,085,000
Earnings from operations		7,086,000		769,000		7,855,000
Nine Months Ended September 30, 2007						
Product sales	$	145,892,000	$	21,771,000	$	167,663,000
Licensing revenues		2,729,000		—		2,729,000
Net sales		148,621,000		21,771,000		170,392,000
Earnings from operations		19,866,000		2,638,000		22,504,000
2006						
Product sales	$	137,143,000	$	20,416,000	$	157,559,000
Licensing revenues		2,925,000		—		2,925,000
Net sales		140,068,000		20,416,000		160,484,000
Earnings from operations		18,763,000		2,783,000		21,546,000

4. **Share-Based Compensation Plans**

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), “Share-Based Payment,” (SFAS 123(R)) using the modified prospective method. This method requires that companies recognize compensation expense for new grants and the unvested portion of prior grants at their fair value on the grant date and recognize this expense over the requisite service period for awards expected to vest. The results for prior year periods have not been restated. No stock-based employee compensation expense has been charged against income in the nine month period ended September 30, 2006, as there were no stock options granted during this period, and all of the Company’s stock options granted prior to the effective date were 100% vested at the effective date. The Company’s policy is to estimate the fair market value of each option granted on the date of grant using the Black-Scholes option pricing model and record the compensation expense on a straight-line basis over the vesting period. The Company issues new common stock to satisfy stock option exercises.

The following table summarizes the stock option activity under the Company's plans for the nine-month period ended September 30, 2007:

	Shares	Weighted Average Exercise Price	Wtd. Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value*
Outstanding at December 31, 2006	1,252,190	$ 12.62		
Exercised	(180,966)	$ 10.21		
Forfeited	(3,700)	$ —		
Outstanding at September 30, 2007	1,067,524	$ 12.99	4.55	$ 19,663,230
Exercisable at September 30, 2007	1,023,324	$ 12.51	4.56	$ 19,339,686

*The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between market value at September 30, 2007 of $31.41 and the exercise price.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Total intrinsic value of stock options exercised	$ 577,087	$ 875,935	$ 2,864,606	$ 3,072,980
Cash received from stock option exercises	$ 456,978	$ 633,090	$ 1,847,220	$ 1,828,579
Income tax benefit from the exercise of stock options	$ 225,064	$ 341,614	$ 1,121,097	$ 1,198,462
Total fair value of stock options vested	$ —	$ —	$ —	$ —

5. **Shareholders' Investment**

On July 1, 2007, the Company's Class B Common stock expired and each share was automatically converted one-for-one into the Company's Common stock.

6. **ComprehensiveIncome**

Comprehensive income for the three- and nine-months ended September 30, 2007 and 2006 was as follows:

	Three Months Ended September 30,		Nine Months ended September 30,	
	2007	2006	2007	2006
Net earnings	$ 5,334,088	$ 5,168,138	$ 15,077,828	$ 14,119,459
Foreign currency translation adjustments	20,740	31,664	(224,102)	135,890
Change in unrecognized pension plan liabilities, net of tax	95,000	—	283,000	—
Total comprehensive income	$ 5,449,828	$ 5,199,802	$ 15,136,726	$ 14,255,349

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

	September 30, 2007	December 31, 2006
Foreign currency translation adjustments	$ 213,849	$ 438,251
Unrecognized pension plan liabilities, net of tax	(5,537,292)	(5,820,292)
Total accumulated other comprehensive loss	$ (5,323,443)	$ (5,382,041)

7. NewAccounting Pronouncements

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

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

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

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

OVERVIEW

The Company is a distributor of men's casual, dress and fashion shoes. The principal brands of shoes sold by the Company are "Florsheim," "Nunn Bush," and "Stacy Adams." The Company also has other brands, including "Brass Boot" and "Nunn Bush NXXT," which are included within Nunn Bush net sales figures, and "SAO by Stacy Adams," which is included within Stacy Adams net sales. Inventory is purchased from third-party overseas manufacturers. The majority of foreign-sourced purchases are denominated in U.S. dollars. In the wholesale division, the Company's products are sold to shoe specialty stores, department stores and clothing retailers, primarily in North America, with some distribution in Europe. The Company also has a retail division, which as of September 30, 2007, consisted of 37 Company-owned retail stores in the United States, four in Europe, and an Internet business. The Company continually evaluates new store locations in the United States. 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.

The overall retail environment in the footwear and apparel industries has been challenging. The Company experienced softness this quarter in its wholesale business across many trade channels, particularly with its independent shoe and apparel retailers. However, consolidated net sales were up 4% this quarter, due mainly to the new Florsheim wholesale business in Canada. Prior to January 1, 2007, Florsheim footwear was distributed in Canada by a third party licensee. That license arrangement terminated December 31, 2006 and, since then, the Company has been operating its own wholesale business in Canada. For the nine months ended September 30, 2007, the Company's consolidated net sales increased 6% to $170.4 million from $160.5 million in 2006.

Consolidated net earnings in the third quarter of 2007 were up 3% to $5.33 million, or $.45 per diluted share compared with $5.17 million, or $.43 per diluted share in the same period of 2006. For the nine months ended September 30, 2007, net earnings increased 7% to $15.1 million, or $1.25 per diluted share compared with $14.1 million, or $1.17 per diluted share in 2006. A detailed analysis of operating results follows.

RESULTS OF OPERATIONS

Wholesale Sales

Sales in the Company's wholesale division for the three- and nine-month periods ended September 30, 2007 and 2006 were as follows:

	Wholesale Division Sales					
	Three Months ended September 30,			Nine Months ended September 30,		
	2007	2006	% change	2007	2006	% change
Stacy Adams	$ 15,716,069	$ 14,479,080	8.5%	$ 44,031,120	$ 42,410,963	3.8%
Nunn Bush	16,012,584	17,332,096	(7.6)%	49,587,557	50,423,995	(1.7)%
Florsheim	17,396,821	15,272,440	13.9%	47,945,474	40,562,138	18.2%
Foreign	1,377,931	1,387,974	(0.7)%	4,328,108	3,746,322	15.5%
Total Wholesale	$ 50,503,405	$ 48,471,590	4.2%	$ 145,892,259	$ 137,143,418	6.4%
Licensing	807,086	916,198	(11.9)%	2,728,720	2,925,071	(6.7)%
Total Wholesale Division	$ 51,310,491	$ 49,387,788	3.9%	$ 148,620,979	$ 140,068,489	6.1%

The acquisition of one of the Company's significant customers by another retailer in 2005 resulted in some loss of sales volume at Nunn Bush and Florsheim in 2006 and 2007. The acquiring company decided not to go forward with either the Nunn Bush or Florsheim product lines in its stores. For the nine months ended September 30, 2007, business with this customer was down $2.9 million compared to the prior year period. The lost business with this customer had no impact in the third quarter of 2007.

The sales increases at Stacy Adams for the quarter and year-to-date were attributable to growth in business with major chain stores. These increases were somewhat offset by decreased volume with independent shoe and clothing retailers.

Quarter and year-to-date sales in the Nunn Bush division were down this year compared with last year due to lower sales in Canada. In addition, Nunn Bush sales in the United States for the quarter were down 5% compared with last year's third quarter due to the general malaise in the footwear market in the United States. For the nine months ended September 30, 2007, Nunn Bush sales in the United States were up 1.4% over the same period last year. Increased business with department stores and larger shoe store chains were somewhat offset by the year-to-date loss of $1.9 million of sales to the customer discussed above.

Florsheim sales were up, both for the quarter and year-to-date, and much of the increase can be attributed to new Florsheim sales in Canada. Sales of Florsheim product in Canada were $2.0 and $4.3 million for the three and nine months ended September 30, 2007, respectively. The remaining increase in Florsheim sales for the nine months ended September 30, 2007 was due to increased sales to department stores and shoe chains. The change in Canadian distributors reduced licensing revenues by $100,000 and $200,000 for the three and nine months ended September 30, 2007. The Company expects total 2007 Florsheim Canadian sales to be between $5.5 and $6 million with related royalty income reduced by $250,000.

Retail Sales

Retail net sales in the current quarter were up approximately 2% to $6.85 million from $6.7 million in the prior year. Year-to-date sales in the retail division increased 6.9% to $21.8 million this year from $20.4 million last year. The quarter and year-to-date increases were primarily attributable to three additional stores at September 30, 2007 compared with September 30, 2006. Same store sales were flat for the quarter and up 3% for the nine-months ended September 30, 2007.

Gross Earnings

Overall gross earnings as a percent of net sales for the three months ended September 30, 2007 was 37.5% compared with 36.7% in the prior year period. Wholesale gross earnings as a percent of net sales for the quarter was 32.6% in 2007, up from 31.6% in 2006. Gross earnings as a percent of net sales in the retail division was 66.4% in the third quarter of 2007 compared with 65.1% in 2006.

Overall gross earnings as a percent of net sales for the nine months ended September 30, 2007 was 37.3%, compared with 36.8% in 2006. Wholesale gross earnings as a percent of net sales for the nine months ended September 30 was 31.8% in 2007 and 31.2% in 2006. Retail gross earnings as a percent of net sales for the first nine months of this year was 66.5% and 65.4% last year. The increase in wholesale margins for the three and nine months ended September 30, 2007 was due largely to the effect of the new Florsheim wholesale business in Canada. US wholesale margins were flat, as the Company continues to feel pricing pressures from its overseas suppliers due to the weakening dollar and increased labor and materials costs. Going forward, the Company will focus on carefully managing its costs and pricing structure in order to maintain margins.

The Company's cost of sales does not include distribution costs (e.g., receiving, inspection or warehousing costs). Distribution costs for the three-month periods ended September 30, 2007 and 2006, were $1,770,000 and $1,596,000, respectively. The Company's distribution costs to date in 2007 and 2006 were $5,051,000 and $4,769,000, respectively. The Company includes these costs 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 as a percent of net sales were 23.9% versus 22.7% in 2006. Wholesale selling and administrative expenses as a percent of wholesale net sales were 19.7% in 2007 and 18.9% in 2006. Retail selling and administrative expenses as a percent of net sales were 57.6% in 2007 and 53.6% in 2006.

For the nine months ended September 30, selling and administrative expenses as a percent of net sales were 24.1% in 2007 versus 23.4% in 2006. Wholesale selling and administrative expenses as a percent of wholesale net sales to date were 20.0% in 2007 and 19.7% in 2006. Retail selling and administrative expenses as a percent of net sales were 54.4% in 2007 and 51.8% in 2006. The increase in wholesale expenses as a percent of sales was due to higher costs in Canada resulting from the transition this year of the Florsheim business in Canada, and in the United States increases in advertising and employee-related costs. The increase in retail expenses as a percent of sales for both the third quarter and first nine months of 2007 was due to higher expenses in relation to sales in the new stores, as well as increased costs associated with lease renewals at some existing stores.

Interest and Taxes

The increase in interest income in the third quarter and first nine months of 2007 was due to higher investments in marketable securities, which are primarily invested in municipal bonds. The decrease in interest expense this year was due to lower short-term borrowings in 2007 compared with 2006.

The effective tax rate for the quarter ended September 30, 2007 and 2006 was 36.6% and 36.9%, respectively. The effective tax rate for the nine months ended September 30, 2007 was 36.8% compared with 37.4% in the prior year. The lower rates in the current year are primarily due to increased municipal bond interest.

LIQUIDITY & CAPITAL RESOURCES

The Company’s primary source of liquidity is its cash and short-term marketable securities, which aggregated approximately $9.9 million at September 30, 2007 as compared with $16.9 million at December 31, 2006. During the first nine months of 2007, the Company’s primary source of cash was from operations while its primary uses of cash were the purchase of marketable securities, the repayment of borrowings and repurchases of the Company’s stock. The Company also spent $2.2 million on capital expenditures in the first nine months of 2007. Capital expenditures are expected to be between $3 and $4 million for the full year of 2007 due to remodeling of retail stores and the opening of new stores.

The Company generated $14.3 million in cash from operating activities in the first nine months of 2007, compared with a use of $2.8 million in the prior year period. This increase was primarily due to changes in operating assets and liabilities and higher net earnings in 2007.

Cash dividends paid were $3.4 million and $2.7 million in the nine months ended September 30, 2007 and 2006, respectively. In April 2007, the Company's Board of Directors increased the quarterly dividend from $.09 per share to $.11 per share. This represented an increase of 22% compared with the previous quarterly dividend rate. The impact of this is to increase cash dividends paid annually by approximately $900,000.

The Company continues to repurchase its common stock under its share repurchase program when the Company believes market conditions are favorable. In the first nine months of 2007, the Company repurchased and retired 338,699 shares for a total cost of $8.9 million.

As of September 30, 2007, the Company had a total of $50 million available under its borrowing facility, of which total borrowings were $5.5 million. The facility includes one financial covenant which specifies a minimum level of net worth. The Company was in compliance with the covenant at September 30, 2007. The facility has a 364-day term and expires on April 30, 2008.

The Company will continue to evaluate the best uses for its free cash, including continued increased dividends, stock repurchases and acquisitions. The Company currently has 956,948 shares available under its previously announced buyback program.

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

The Company believes that available cash and marketable securities, cash provided by operations, and available borrowing facilities will provide adequate support for the cash needs of the business in 2007.

FORWARD-LOOKING STATEMENTS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely basis. The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in bringing to their attention on a timely basis material information relating to the Company required to be included in the Company's periodic filings under the Exchange Act. Such officers have also concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in accumulating and communicating information in a timely manner allowing timely decisions regarding required disclosures.

There have not been any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

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

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

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

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
07/01/07 - 07/31/07	19,800	$	25.16	19,800	1,012,948
08/01/07 - 08/31/07	28,450	$	29.21	28,450	993,148
09/01/07 - 09/30/07	7,750	$	33.10	7,750	964,698
Total	56,000	$	28.32	56,000	956,948

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WEYCO GROUP, INC.

November 8, 2007
Date

/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 SEPTEMBER 30, 2007

EXHIBIT NUMBER	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO	FILED HEREWITH
31.1	Certification of Chief Executive Officer		X
31.2	Certification of Chief Financial Officer		X
32. 1	Section 906 Certification of Chief Executive Officer		X
32.2	Section 906 Certification of Chief Financial Officer		X