WEYCO GROUP INC
Form 10-K
March 13, 2018

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, 2017, 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 (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, WI 53201

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including 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 o No x

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

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 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o
Smaller reporting company o	Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act o

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

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, 2017, was $169,906,000. This was based on the closing price of $27.88 per share as reported by Nasdaq on June 30, 2017, the last business day of the registrant s most recently completed second fiscal quarter.

As of March 1, 2018, there were 10,243,869 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for its Annual Meeting of Shareholders scheduled for May 8, 2018, are incorporated by reference in Part III of this report.

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WEYCO GROUP, INC.

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CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

This report contains certain forward-looking statements with respect to Weyco Group, Inc. s (the Company) 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. Such statements can be identified by the use of words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plan projects, should, will, or variations of such words, and similar expressions. Forward-looking statements, by their nature, address matters that are, to varying degrees, uncertain. Therefore, 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.

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PART 1

ITEM 1 BUSINESS

Weyco Group, Inc. 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 design and distribution of quality and innovative footwear. The Company designs and markets footwear principally for men, but also for women and children, under a portfolio of well-recognized brand names including: Florsheim, Nunn Bush, Stacy Adams, BOGS, Rafters and Umi. Trademarks maintained by the Company on its brands are important to the business. The Company s products consist primarily of mid-priced leather dress shoes and casual footwear composed of man-made materials or leather. In addition, the Company added outdoor boots, shoes and sandals in 2011 with the acquisition of the BOGS and Rafters brands. The Company s footwear is available in a broad range of sizes and widths, primarily purchased to meet the needs and desires of the general American population.

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. The Company continues to experience upward cost pressures from its suppliers related to a variety of factors, including higher labor, materials and freight 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 (collectively, Florsheim Australia) and its wholesale and retail businesses in Europe (Florsheim Europe).

Sales of the Company s wholesale segment, which include both wholesale sales and worldwide licensing revenues, constituted 77% of total net sales in each of the years 2017 and 2016, and 78% of total net sales in 2015. At wholesale, shoes are marketed throughout the United States and Canada in more than 10,000 shoe, clothing and department stores. In 2017, 2016, and 2015 no individual customer represented more than 10% of the Company s total sales. The Company employs traveling salespeople and independent sales representatives 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. In the men s footwear business, there is generally no identifiable seasonality, although new styles are historically developed and shown twice each year, in spring and fall. With the BOGS brand, which mainly sells winter and outdoor boots, there is seasonality in its business due to the nature of the product; the majority of BOGS sales occur in the third and fourth quarters. Consistent with industry practices, the Company carries significant amounts of inventory to meet customer delivery requirements and periodically provides extended payment terms to customers. The Company also has licensing agreements with third parties who sell its branded shoes outside of the United States, as well as licensing agreements with specialty shoe, apparel and accessory manufacturers in the United States.

Sales of the Company s retail segment constituted 7% of total net sales in each of the years 2017, 2016, and 2015. As of December 31, 2017, the retail segment consisted of 10 brick and mortar stores and internet businesses in the United States. Sales in retail stores are made directly to the consumer by Company employees.

Sales of the Company s other businesses represented 16% of total net sales in each of the years 2017 and 2016, and 15% of total sales in 2015. These sales relate to the Company s wholesale and retail operations in Australia, South Africa, Asia Pacific and Europe.

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As of December 31, 2017, the Company had a backlog of $35 million in orders compared with $38 million as of December 31, 2016. 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, 2017, the Company employed 626 persons worldwide, of whom 26 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.

Price, quality, service and brand recognition are all important competitive factors in the shoe industry. The Company has a design department that continually reviews and updates 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, although there can be no assurances.

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 contents of the Company s website are not incorporated by reference and are 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 various factors that affect the Company s business, results of operations and financial condition, 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.

Decreases in disposable income and general market volatility 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 majority of the Company s products compete, have historically been correlated with consumers disposable income. As a result, the success of the Company is affected 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. Volatile, unstable or weak economic conditions, or a worsening of conditions, could adversely affect the Company s sales volume and overall performance.

Volatility and uncertainty in the U.S. and global credit markets could adversely affect the Company s business.

U.S. and global financial markets have recently been, and continue to be, unstable and unpredictable, which has generally resulted in tightened credit markets with heightened lending standards and terms. Volatility and instability in the credit markets pose various risks to the Company, including, among others, 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 operating in 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, which could increase pricing pressures and lower the

Company s margins.

As the popularity of online shopping for consumer goods increases, the Company s retail partners may experience decreased foot traffic which could negatively impact their businesses. This may, in turn, negatively impact the Company s sales to those customers, and adversely affect the Company s results of operations.

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 trends or preferences could have an adverse impact on the Company s sales volume and overall performance.

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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 all of its products 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 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 production to different suppliers; however, the transition may not occur smoothly or quickly, which could result in the Company missing customer delivery date requirements and, consequently, the Company could lose future orders.

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

The Company s ability to import products in a timely and cost-effective manner may be affected by disruptions at U.S. or foreign ports or other transportation facilities, such as labor disputes and work stoppages, political unrest, severe weather, or security requirements in the United States and other countries. These issues could delay importation of products or require the Company to locate alternative ports or warehousing providers to avoid disruption to its customers. These alternatives may not be available on short notice or could result in higher transportation costs, which could have a material adverse impact on the Company s overall profitability.

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.

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, foreign currency fluctuations, expropriation and nationalization.

The Company conducts business globally, which exposes it to the impact of foreign currency fluctuations as well as political and economic risks.

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 is exposed to other risks of doing business in foreign jurisdictions, including political, economic or social instability, acts of terrorism, changes in government policies and regulations, and exposure to liabilities under anti-corruption laws (such as the U.S. Foreign Corrupt Practices Act). The Company is also exposed to risks relating to U.S. policy with respect to companies doing business in foreign jurisdictions. Legislation or other changes in the U.S. tax laws or interpretations could increase the Company s U.S. income tax liability and adversely affect the Company s after-tax profitability. Changes in tax policy or trade regulations, such as the disallowance of tax deductions on imported merchandise or the imposition of new tariffs on imported products, could have a material adverse effect on the Company s business and results of operations.

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Recently enacted U.S. tax legislation, as well as future U.S. tax legislation, may adversely affect our business, results of operations, financial condition and cash flow.

On December 22, 2017, a comprehensive tax reform bill commonly referred to as the Tax Cuts and Jobs Act (TCJA) was enacted. The TCJA made significant changes to the U.S. federal income tax laws. The Company has performed a preliminary assessment of the impact of the TCJA. However, as the TCJA is complex and far-reaching, there could be future effects that the Company has not identified, or future regulatory guidance, that could have an adverse effect on our business, results of operations, financial condition and cash flow.

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

The footwear market is extremely competitive. The Company competes with manufacturers, distributors and retailers of men s, women s and children s shoes, some of which are larger and have substantially greater resources than the Company. 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, future results of operations and financial condition could decline.

The Company is dependent on information and communication systems to support its business and internet sales. 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 relies on computer systems to efficiently process and record transactions. Significant interruptions in the Company s information and communication systems from power loss, telecommunications failure or computer system failure could significantly disrupt the Company s business and operations. In addition, the Company sells footwear on its websites, and failures of the Company s or other retailers websites could adversely affect the Company s sales and results.

The Company, particularly its retail segment and its internet businesses, is subject to the risk of data loss and security breaches.

The Company sells footwear in its retail stores and on its websites, and therefore the Company and/or its third party credit card processors must process, store, and transmit large amounts of data, including personal information of its customers. Failure to prevent or mitigate data loss or other security breaches, including breaches of Company technology and systems, could expose the Company or its customers to a risk of loss or misuse of such information, adversely affect the Company s operating results, result in litigation or potential liability for the Company, and otherwise harm the Company s business and/or reputation. In order to address these risks, the Company has secured cyber insurance and it uses third party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, and other functions. Although the Company has developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security.

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

The Company has completed a number of acquisitions in the past and intends to continue to look for new acquisition opportunities. Those search efforts could be unsuccessful and costs could be incurred in any failed efforts. Further, if and when an acquisition occurs, the Company cannot

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guarantee that it will 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.

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, Chief Operating Officer and Assistant Secretary, 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 approximately 35% of the stock and one 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 relatively small float and low average daily trading volume, which could affect a shareholder s ability to sell stock or the price at which it can be sold. In addition, future sales of substantial amounts of the Company s common stock in the public market by large shareholders, or the perception that these sales could occur, may adversely impact the market price of the stock and the stock could be difficult for the shareholder to liquidate.

Deterioration of the municipal bond market in general or of specific municipal bonds held by the Company or its pension plan may result in a material adverse effect on the Company s financial condition, results of operations, and liquidity.

The Company maintains an investment portfolio consisting primarily of investment-grade municipal bond investments. The Company s investment policy only permits the purchase of investment-grade securities. The Company s investment portfolio totaled approximately $24 million as of December 31, 2017, or approximately 9% of total assets. If the value of municipal bonds in general or any of the Company s municipal bond holdings deteriorate, the performance of the Company s investment portfolio, financial condition, results of operations, and liquidity may be materially and adversely affected.

The Company s total assets include goodwill and other indefinite-lived intangible assets. If management determines these have become impaired in the future, net earnings could be materially adversely affected. Additionally, potential tax reform

changes related to such assets may adversely affect the Company s financial results.

Goodwill represents the excess of cost over the fair market value of net assets acquired in a business combination. Indefinite-lived intangible assets are comprised of trademarks on certain of the Company s principal shoe brands. The Company s goodwill and trademarks totaled approximately $44 million as of December 31, 2017, or approximately 17% of total assets.

The Company analyzes its goodwill and trademarks for impairment on an annual basis or more frequently when, in the judgment of management, an event has occurred that may indicate that additional analysis is required. Impairment may result from, among other things, deterioration in the Company s performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products sold by the Company, and a variety of other factors. The amount of any quantified impairment must be expensed as a charge to results of operations in the period in which the asset becomes impaired.

The Company did not record any goodwill or trademark impairment charges following the 2017 and 2015 impairment tests. In the fourth quarter of 2016, the Company evaluated the current state of

The Company s total assets include goodwill and otherindefinite-lived intangible assets. If management determines

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its Umi business and determined the brand did not fit the long-term strategic objectives of the Company. As a result, the Company recorded a $1.8 million impairment charge ($1.1 million after tax) to write off the majority of the value of the Umi trademark in 2016. Other than this write-off, the Company did not record any other goodwill or trademark impairment charges in 2016. Any future determination of impairment of a significant portion of goodwill or other identifiable intangible assets could have an adverse effect on the Company s financial condition and results of operations.

Goodwill and trademarks are being deducted for tax purposes in accordance with the U.S. tax policy. Any changes in the U.S. tax policy, limiting or eliminating the deductibility of such assets, could have a material adverse effect on the Company s financial results.

Risks related to our defined benefit plan may adversely impact our results of operations and cash flow.

Significant changes in actual investment return on defined benefit plan assets, discount rates, mortality assumptions and other factors could adversely affect the Company s results of operations and the amounts of contributions the Company must make to its defined benefit plan in future periods. As the Company marks-to-market its defined benefit plan assets and liabilities on an annual basis, large non-cash gains or losses could be recorded in the fourth quarter of each fiscal year. Generally accepted accounting principles in the U.S. require that the Company calculate income or expense for the plan using actuarial valuations. These valuations reflect assumptions about financial markets and interest rates, which may change based on economic conditions. Funding requirements for the Company s defined benefit plans are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory changes related to defined benefit funding obligations. For a discussion regarding the significant assumptions used to determine net periodic pension cost, refer to Critical Accounting Policies included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Natural disasters and other events outside of the Company s control, and the ineffective management of such events, may harm the Company s business.

The Company s facilities and operations, as well as those of the Company s suppliers and customers, may be impacted by natural disasters. In the event of such disasters, and if the Company or its suppliers or customers are not adequately insured, the Company s business could be harmed due to the event itself or due to its inability to effectively manage the effects of the particular event; potential harms include the loss of business continuity, the loss of inventory or business data and damage to infrastructure, warehouses or distribution centers.

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ITEM 1B UNRESOLVED STAFF COMMENTS

None

ITEM 2 PROPERTIES

The following facilities were operated by the Company or its subsidiaries as of December 31, 2017:

Location	Character	Owned/ Leased	Square Footage	% Utilized
Glendale, Wisconsin(2)	Two story office and distribution center	Owned	1,100,000	80 %
Portland, Oregon(2)	Two story office	Leased (1)	6,300	100 %
Montreal, Canada(2)	Multistory office and distribution center	Owned (4)	75,800	100 %
Florence, Italy(3)	Two story office and distribution center	Leased (1)	15,100	100 %
Fairfield Victoria, Australia(3)	Office and distribution center	Leased (1)	54,400	100 %
Honeydew Park, South Africa(3)	Distribution center	Leased (1)	8,600	85 %
Hong Kong, China(3)	Office and distribution center	Leased (1)	14,000	100 %
Dongguan City, China(2)	Office	Leased (1)	4,400	100 %

(1) Not material leases.
(2) These properties are used principally by the Company s North American wholesale segment.
(3) These properties are used principally by the Company s other businesses which are not reportable segments.
(4) The Company owns a 50% interest in this property. See Note 8 of the Notes to Consolidated Financial Statements.

In addition to the above-described offices and distribution facilities, the Company also operates retail shoe stores under various rental agreements. All of these facilities are suitable and adequate for the Company s current operations. See Note 13 of the Notes to Consolidated Financial Statements and Item 1, Business , above.

ITEM 3 LEGAL PROCEEDINGS

None

ITEM 4 MINE SAFETY DISCLOSURES

Not Applicable

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following were executive officers of Company as of December 31, 2017:

Name	Position	Age
Thomas W. Florsheim, Jr.(1)	Chairman and Chief Executive Officer	59
John W. Florsheim(1)	President, Chief Operating Officer and Assistant Secretary	54
John F. Wittkowske(2)	Senior Vice President, Chief Financial Officer and Secretary	58
Judy Anderson	Vice President, Finance and Treasurer	50
Mike Bernsteen	Vice President, and President of Nunn Bush Brand	61
Dustin Combs	Vice President, and President of BOGS and Rafters Brands	35
Brian Flannery	Vice President, and President of Stacy Adams Brand	56
Kevin Schiff	Vice President, and President of Florsheim Brand	49
George Sotiros(2)	Vice President, Information Technology and Distribution	51
Allison Woss	Vice President, Supply Chain	45

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

(2) John F. Wittkowske and George Sotiros are brothers-in-law.

Thomas W. Florsheim, Jr. has served as Chairman and Chief Executive Officer for more than 5 years.

John W. Florsheim has served as President, Chief Operating Officer and Assistant Secretary for more than 5 years.

John F. Wittkowske has served as Senior Vice President, Chief Financial Officer and Secretary for more than 5 years.

Judy Anderson has served as Vice President of Finance and Treasurer for more than 5 years.

Mike Bernsteen has served as a Vice President of the Company and President of the Nunn Bush Brand for more than 5 years.

Dustin Combs has served as a Vice President of the Company and President of the BOGS and Rafters Brands since January 2015. Prior to this role, Mr. Combs served as Vice President of Sales for the BOGS and Rafters Brands from March 2011 to January 2015.

Brian Flannery has served as a Vice President of the Company and President of the Stacy Adams Brand for more than 5 years.

Kevin Schiff has served as a Vice President of the Company and President of the Florsheim Brand for more than 5 years.

George Sotiros has served as Vice President of Information Technology and Distribution since June 2017. Prior to this role, Mr. Sotiros served as Vice President of Information Technology for more than 5 years.

Allison Woss has served as Vice President of Supply Chain since August 2016. Prior to this role, Ms. Woss served as Vice President of Purchasing from January 2007 to August 2016.

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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

	2017 Stock Prices			2016 Stock Prices		
Quarter:	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
First	**$ 32.30**	**$ 23.75**	**$ 0.21**	$ 28.23	$ 22.94	$ 0.20
Second	**$ 29.30**	**$ 26.51**	**$ 0.22**	$ 28.50	$ 25.84	$ 0.21
Third	**$ 29.00**	**$ 26.68**	**$ 0.22**	$ 29.05	$ 24.52	$ 0.21
Fourth	**$ 29.95**	**$ 27.00**	**$ 0.22**	$ 31.58	$ 24.91	$ 0.21
			$ 0.87			$ 0.83

The stock prices shown above are the high and low actual trades on the Nasdaq for the calendar periods indicated.

There were 130 holders of record of the Company s common stock as of March 1, 2018.

Stock Performance

The following line graph compares the cumulative total shareholder return on the Company s common stock during the five years ended December 31, 2017 with the cumulative return on the Nasdaq-100 Index and the Russell 3000 RGS Textiles Apparel & Shoe Index. The comparison assumes $100 was invested on December 31, 2012, in the Company s common stock and in each of the foregoing indices and assumes reinvestment of dividends.

	2012	2013	2014	2015	2016	2017
Weyco Group, Inc.	100	126	126	118	143	148
Nasdaq-100 Global Index	100	137	163	179	192	256
Russell 3000 RGS Textiles Apparel & Shoe Index	100	147	164	160	141	175

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In 1998 the Company s stock repurchase program was established. On several occasions since the program s inception, the Board of Directors has extended the number of shares authorized for repurchase under the program. In total, 7.5 million shares have been authorized for repurchase. This includes the additional 1.0 million shares that the Company s Board of Directors authorized for repurchase on October 31, 2017. The table below presents information pursuant to Item 703 of Regulation S-K regarding the repurchase of the Company s common stock by the Company in the three-month period ended December 31, 2017.

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
10/01/2017	10/31/2017	7,623	$ 27.95	7,623	1,136,841
11/01/2017	11/30/2017	86,005	$ 27.93	86,005	1,050,836
12/01/2017	12/31/2017	34,200	$ 27.87	34,200	1,016,636
Total		127,828	27.91	127,828	

ITEM 6 SELECTED FINANCIAL DATA

The following selected financial data reflects the results of operations, balance sheet data and common share information as of and for the years ended December 31, 2013 through December 31, 2017.

	As of or for the Years Ended December 31, (in thousands, except per share amounts)				
	2017	2016	2015	2014	2013
Net Sales	**$283,749**	$296,933	$320,617	$320,488	$300,284
Net earnings attributable to Weyco Group, Inc.	**$16,491**	$16,472	$18,212	$19,020	$17,601
Diluted earnings per share	**$1.60**	$1.56	$1.68	$1.75	$1.62
Weighted average diluted shares outstanding	**10,314**	10,572	10,859	10,888	10,865
Cash dividends per share	**$0.87**	$0.83	$0.79	$0.75	$0.54
Total assets at year end	**$262,832**	$268,240	$298,997	$277,446	$267,533
Bank borrowings at year end	**$**	$4,268	$26,649	$5,405	$12,000

ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. Inventory is 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. The Company also has 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 10 brick and mortar retail stores and internet businesses in the United States as of December 31, 2017. 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 and 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.

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This discussion summarizes the significant factors affecting the consolidated operating results, financial position and liquidity of the Company for the three-year period ended December 31, 2017. This discussion should be read in conjunction with Item 8, Financial Statements and Supplementary Data below.

Non-Recurring Adjustments

There were four non-recurring adjustments that impacted the comparison of earnings results in 2017, 2016 and 2015. The first adjustment, which was recorded in the fourth quarter of 2017, reduced the Company s income tax provision by $1.5 million due to the change in the U.S. federal corporate tax rate and its impact on the Company s deferred tax balances, which resulted from the enactment of the TCJA on December 22, 2017. The second adjustment, which was recorded in the fourth quarter of 2016, was a charge for the impairment of long-lived assets of $1.8 million ($1.1 million after tax) related to the Umi trademark. The third adjustment, which was also recorded in the fourth quarter of 2016, was a $3.1 million adjustment to reverse the deferred tax liability on corporate-owned life insurance policies. The fourth adjustment, which was recorded in the fourth quarter of 2015, was a $458,000 ($279,000 after tax) adjustment to the final earnout payment related to the 2011 acquisition of the BOGS/Rafters brands. The final earnout payment was paid in March 2016. All non-recurring adjustments were recorded within the Company s wholesale segment.

For a tabular presentation of the impact of non-recurring adjustments on the Company s results, see the Reconciliation of Non-GAAP Financial Measures table in the OTHER section below.

EXECUTIVE OVERVIEW

Sales and Earnings Highlights

Consolidated net sales were $283.7. million in 2017, a decrease of 4% compared to $296.9 million in 2016. Net sales in the Company s wholesale segment decreased $10.3 million, or 5% for the year, primarily due to lower sales of the Nunn Bush and BOGS brands, partially offset by higher sales of the Florsheim brand. Net sales in the Company s retail segment were down 5% for the year, and net sales of the Company s other businesses (Florsheim Australia and Florsheim Europe) were down 4% for the year.

Consolidated earnings from operations were $23.4 million in 2017, up 3% from $22.8 million in 2016. Excluding non-recurring adjustments, consolidated earnings from operations, as adjusted, were down 5% for the year. Wholesale earnings from operations were up 13% for the year; excluding non-recurring adjustments, wholesale earnings from operations, as adjusted, were up 3% for the year, due to higher gross margins and lower selling and administrative expenses. This increase, however, was more than offset by lower earnings from operations in the Company s retail segment and in the Company s other businesses. Retail earnings from operations were down this year due mainly to lower sales of the Company s domestic websites. Earnings from operations of the Company s other businesses were down primarily due to lower sales at Florsheim Australia.

Net earnings attributable to Weyco Group, Inc. were flat at $16.5 million in both 2017 and 2016. As adjusted, net earnings attributable to the Company, were up 4% for the year. While adjusted consolidated earnings from operations were down in 2017, reductions in certain non-operating expenses, mainly in interest and pension expense, resulted in higher net earnings, as adjusted, compared to last year.

On December 31, 2016, the Company froze its pension plan which resulted in reducing pension expense by approximately $2.2 million in 2017. Also, in 2017, the Company retrospectively adopted a new accounting rule that required the Company to reclassify the non-service cost components of pension expense from selling and administrative expenses to other expense in the Consolidated Statements of Earnings. Accordingly, $1.1 million of the cost savings was recognized in selling and administrative expenses and the remaining $1.1 million of cost savings was recognized in other expense, net in the Consolidated Statements of Earnings.

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Diluted earnings per share were $1.60 per share in 2017, compared to $1.56 per share in 2016. Excluding the non-recurring adjustments described above, diluted earnings per share, as adjusted, were $1.45 per share in 2017 and $1.36 per share in 2016.

Financial Position Highlights

At December 31, 2017, cash and marketable securities totaled $47.1 million and there was no debt outstanding. During 2017, the Company generated $33.5 million of cash from operations, and collected $4.3 million in proceeds from stock option exercises. The Company used funds to pay off $4.3 million on its revolving line of credit, repurchase $15.2 million of its common stock, pay $9.1 million of dividends, and purchase a net of $2.0 million in marketable securities. In addition, the Company spent $1.6 million on capital expenditures.

2017 vs. 2016

SEGMENT ANALYSIS

Net sales and earnings from operations for the Company s segments, as well as its other operations, in the years ended December 31, 2017 and 2016, were as follows:

	Years ended December 31,		
	2017	2016	% Change
	(Dollars in thousands)		
Net Sales			
North American Wholesale	**$ 217,276**	$ 227,537	-5 %
North American Retail	**20,860**	21,883	-5 %
Other	**45,613**	47,513	-4 %
Total	**$ 283,749**	$ 296,933	-4 %
Earnings from Operations			
North American Wholesale	**$ 20,224**	$ 17,944	13 %
North American Retail	**1,374**	2,109	-35 %
Other	**1,814**	2,729	-34 %
Total			