

WEYCO GROUP INC
Form 10-K
March 11, 2015

**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, 2014, 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 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 (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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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, 2014, was \$180,374,000. This was based on the closing price of \$27.41 per share as reported by NASDAQ on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 2, 2015, there were 10,813,336 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for its Annual Meeting of Shareholders scheduled for May 5, 2015, 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 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 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 and changes in the strength of the U.S. dollar. The Company has worked to increase its selling prices to offset the effect of these increases.

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.

In 2014, 2013 and 2012, sales of the North American wholesale segment, which include both wholesale sales and licensing revenues, constituted approximately 76%, 75% and 74% 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 2014, 2013, and 2012 there were no single customers with sales above 10% of the Company's 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. 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 BOGS, 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, corresponding with colder winter weather. 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.

In 2014, 2013 and 2012, sales of the North American retail segment constituted approximately 7%, 8% and 8% of total sales, respectively. As of December 31, 2014, the retail segment consisted of 16 company-operated stores and an internet business 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 17%, 17% and 18% of total sales in 2014, 2013, and 2012, respectively. These sales relate to the Company's wholesale and retail operations in Australia, South Africa, Asia

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As of December 31, 2014, the Company had a backlog of \$57 million orders compared with \$53 million as of December 31, 2013. 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, 2014, the Company employed 640 persons worldwide, of whom 32 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 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 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.

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 majority 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. Volatile, unstable or 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.

U.S. and 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 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 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.

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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 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 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 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.

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's business relies on third parties to transport and process its inventory, and labor stoppages could adversely affect the Company's ability to import product.

In late 2014, U.S. West Coast longshoremen engaged in a work slowdown as a result of an ongoing labor dispute between the Pacific Maritime Association (PMA) and the International Longshore and Warehouse Union (ILWU). This work slowdown created delays of three to four weeks on shipments of the Company's inventory from factories in China and India. In February 2015, the PMA and the ILWU reached a tentative five year agreement. Although an agreement was reached, the slowdown created a large backlog of containers on the West Coast. It is not known how long it will take for port operations to clear the backlog. Although the Company has not yet experienced any negative financial effects as a result of the backlog, the Company could still experience inventory delivery issues until the ports are operating normally, and may be unable to deliver adequate levels of product to its customers in the United States.

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 footwear market is extremely competitive. The Company competes with manufacturers, distributors and retailers of men's, women's and children's shoes, certain 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

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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 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's retail segment, including its internet business, 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 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 historically completed a number of acquisitions and intends to continue to look for new acquisition opportunities. Those search efforts could be unsuccessful and costs could be incurred in those failed efforts. Further, if and when an acquisition occurs, the Company cannot 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 two institutional shareholders hold significant blocks. 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

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shareholder's ability to sell his stock or the price at which he can sell it. In addition, future sales of substantial amounts of the Company's common stock in the public market by those larger 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 entirely 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 \$30 million as of December 31, 2014, or approximately 11% of total assets. If the value of municipal bond markets 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.

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 were approximately \$46 million as of December 31, 2014, or approximately 17% of total assets.

The Company analyzes goodwill 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 charges for impairment of goodwill or trademarks in 2014, 2013, or 2012. 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.

Risks related to our defined benefit retirement plan may adversely impact our results of operations and cashflow.

Significant changes in actual investment return on defined benefit plan assets, discount rates, mortality assumptions and other factors could adversely affect our results of operations and the amounts of contributions we must make to our defined benefit plan in future periods. As we mark-to-market our 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 we 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 our 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 benefit cost, refer to "Critical Accounting Policies" included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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If the Company is unable to maintain effective internal control over its financial reporting, investors could lose confidence in the reliability of its financial statements, which could result in a reduction in the value of its common stock.

Under Section 404 of the Sarbanes-Oxley Act, public companies must include a report of management on the Company's internal control over financial reporting in their annual reports; that report must contain an assessment by management of the effectiveness of the Company's internal control over financial reporting. In addition, the independent registered public accounting firm that audits a company's financial statements must attest to and report on the effectiveness of the company's internal control over financial reporting.

If the Company is unable to maintain effective internal control over financial reporting, including in connection with changes in accounting rules and standards that apply to it, this could lead to a failure to meet its reporting obligations to the SEC. Such a failure in turn could result in an adverse reaction to the Company in the marketplace or a loss in value of the Company's common stock, due to a loss of confidence in the reliability of the Company's financial statements.

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.

ITEM 1B UNRESOLVED STAFF COMMENTS

None

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The following facilities were operated by the Company or its subsidiaries as of December 31, 2014:

Location	Character	Owned/ Leased	Square Footage	% Utilized
Glendale, Wisconsin ⁽²⁾	Two story office and distribution center	Owned	1,025,000	85 %
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⁾	54,000	100 %
Honeydew Park, South Africa ⁽³⁾	Distribution center	Leased ⁽¹⁾	8,600	80 %
Hong Kong, China ⁽³⁾	Office and distribution center	Leased ⁽¹⁾	14,000	100 %
Dongguan City, China ⁽³⁾	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