

## Section 1: 10-Q (10-Q)

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

### FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

Commission File Number: **001-34382**



## ROCKY BRANDS, INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

No. 31-1364046

(I.R.S. Employer Identification No.)

39 East Canal Street, Nelsonville, Ohio 45764

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(740) 753-9100**

<u>Title of class</u>	<u>Trading symbol</u>	<u>Name of exchange on which registered</u>
Common Stock – No Par Value	RCKY	Nasdaq

Indicate by checkmark 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 the filing requirements for at least the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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.

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

There were 7,374,969 shares of the Registrant's Common Stock outstanding on October 31, 2019.

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**PART 1 – FINANCIAL INFORMATION**  
**ITEM 1 – FINANCIAL STATEMENTS**

**Rocky Brands, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share amounts)  
(Unaudited)

	<u>September 30,</u> 2019	<u>December 31,</u> 2018	<u>September 30,</u> 2018
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 6,440	\$ 10,173	\$ 4,210
Trade receivables, net	50,700	43,337	50,691
Contract receivables	2,036	2,602	4,849
Other receivables	310	331	282
Inventories – net	82,881	72,822	78,409
Income tax receivable	-	30	-
Prepaid expenses	2,656	1,890	2,122
Total current assets	<u>145,023</u>	<u>131,185</u>	<u>140,563</u>
LEASED ASSETS	1,781	-	-
PROPERTY, PLANT & EQUIPMENT – net	25,150	23,057	23,209
IDENTIFIED INTANGIBLES – net	30,248	30,273	30,283
OTHER ASSETS	293	148	163
<b>TOTAL ASSETS</b>	<b><u>\$ 202,495</u></b>	<b><u>\$ 184,663</u></b>	<b><u>\$ 194,218</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 20,531	\$ 13,543	\$ 20,622
Contract liabilities	1,936	2,602	4,849
Accrued expenses:			
Salaries and wages	2,791	3,339	3,661
Taxes - other	624	556	158
Accrued freight	495	668	465
Commissions	488	560	432
Accrued duty	2,597	2,334	2,727
Income tax payable	19	-	1,888
Other	1,766	1,416	1,308
Total current liabilities	<u>31,247</u>	<u>25,018</u>	<u>36,110</u>
LONG-TERM TAXES PAYABLE	169	169	169
LONG-TERM LEASE	1,188	-	-
DEFERRED INCOME TAXES	7,780	7,780	7,726
DEFERRED LIABILITIES	230	121	153
<b>TOTAL LIABILITIES</b>	<b><u>40,614</u></b>	<b><u>33,088</u></b>	<b><u>44,158</u></b>
<b>SHAREHOLDERS' EQUITY:</b>			
<b>Common stock, no par value;</b>			
25,000,000 shares authorized; issued and outstanding September 30, 2019 - 7,403,219; December 31, 2018 - 7,368,494 and September 30, 2018 - 7,421,317	69,273	68,387	69,589
Retained earnings	92,608	83,188	80,471
Total shareholders' equity	<u>161,881</u>	<u>151,575</u>	<u>150,060</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 202,495</u></b>	<b><u>\$ 184,663</u></b>	<b><u>\$ 194,218</u></b>

See Notes to Unaudited Condensed Consolidated Financial Statements



**Rocky Brands, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**(In thousands, except per share amounts)**  
**(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
NET SALES	\$ 67,179	\$ 65,916	\$ 195,067	\$ 185,508
COST OF GOODS SOLD	42,165	43,516	125,633	122,610
GROSS MARGIN	25,014	22,400	69,434	62,898
OPERATING EXPENSES	18,027	16,791	54,004	49,688
INCOME FROM OPERATIONS	6,987	5,609	15,430	13,210
OTHER INCOME (EXPENSES)	43	31	160	(148)
INCOME BEFORE INCOME TAXES	7,030	5,640	15,590	13,062
INCOME TAX EXPENSE	1,414	595	3,212	2,117
NET INCOME	\$ <u>5,616</u>	\$ <u>5,045</u>	\$ <u>12,378</u>	\$ <u>10,945</u>
INCOME PER SHARE				
Basic	\$ 0.76	\$ 0.68	\$ 1.67	\$ 1.48
Diluted	\$ 0.75	\$ 0.67	\$ 1.66	\$ 1.47
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	<u>7,400</u>	<u>7,418</u>	<u>7,392</u>	<u>7,412</u>
Diluted	<u>7,455</u>	<u>7,480</u>	<u>7,443</u>	<u>7,454</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

**Rocky Brands, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Shareholders' Equity**  
(In thousands, except per share amounts)  
(Unaudited)

	Common Stock and Additional Paid-in Capital Shares Outstanding	Amount	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
<b>BALANCE - December 31, 2018</b>	7,368	\$ 68,387	-\$	83,188	\$ 151,575
<b>NINE MONTHS ENDED SEPTEMBER 30, 2019</b>					
Net income				\$ 3,605	\$ 3,605
Dividends paid on common stock (\$0.12 per share)				(887)	(887)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	17	294			294
Stock compensation expense	6	168			168
<b>BALANCE - March 31, 2019</b>	7,391	\$ 68,849	-\$	85,906	\$ 154,755
Net income				\$ 3,157	\$ 3,157
Dividends paid on common stock (\$0.14 per share)				(1,036)	(1,036)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	-	-			-
Stock compensation expense	3	164			164
<b>BALANCE - June 30, 2019</b>	7,394	\$ 69,013	-\$	88,027	\$ 157,040
Net income				\$ 5,616	\$ 5,616
Dividends paid on common stock (\$0.14 per share)				(1,036)	(1,036)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	7	96			96
Stock compensation expense	2	164			164
<b>BALANCE - September 30, 2019</b>	7,403	\$ 69,273	-\$	92,607	\$ 161,880
<b>BALANCE - December 31, 2017</b>	7,399	\$ 68,974	-\$	72,119	\$ 141,093
<b>NINE MONTHS ENDED SEPTEMBER 30, 2018</b>					
Net income				\$ 3,251	\$ 3,251
Dividends paid on common stock (\$0.11 per share)				(815)	(815)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	-	-			-
Stock compensation expense	8	299			299
<b>BALANCE - March 31, 2018</b>	7,407	\$ 69,273	-\$	74,555	\$ 143,828
Net income				\$ 2,649	\$ 2,649
Dividends paid on common stock (\$0.12 per share)				(888)	(888)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	-	-			-
Stock compensation expense	8	164			164
<b>BALANCE - June 30, 2018</b>	7,415	\$ 69,437	-\$	76,316	\$ 145,753
Net income				\$ 5,045	\$ 5,045
Dividends paid on common stock (\$0.12 per share)				(890)	(890)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	4	54			54
Stock compensation expense	2	98			98
<b>BALANCE - September 30, 2018</b>	7,421	\$ 69,589	-\$	80,471	\$ 150,060

See Notes to Unaudited Condensed Consolidated Financial Statements



**Rocky Brands, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(In thousands)**  
**(Unaudited)**

	Nine Months Ended	
	September 30,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 12,378	\$ 10,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,767	4,074
Deferred compensation	74	-
(Gain) loss on disposal of fixed assets	7	(8)
Stock compensation expense	496	491
Change in assets and liabilities:		
Receivables	(6,747)	(3,290)
Inventories	(10,059)	(12,786)
Other current assets	(3,227)	78
Other assets	(115)	34
Accounts payable	7,201	7,702
Accrued and other liabilities	1,096	1,712
Income taxes payable	19	1,888
Long term taxes payable	-	(2,117)
Net cash provided by operating activities	<u>4,890</u>	<u>8,723</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(6,054)	(3,542)
Proceeds from sales of fixed assets	-	17
Net cash used in investing activities	<u>(6,054)</u>	<u>(3,525)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolving credit facility	-	4,248
Repayments on revolving credit facility	-	(6,448)
Proceeds from stock options	390	124
Dividends paid on common stock	(2,959)	(2,593)
Net cash used in financing activities	<u>(2,569)</u>	<u>(4,669)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,733)</b>	<b>529</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
<b>BEGINNING OF PERIOD</b>	<u>10,173</u>	<u>3,681</u>
<b>END OF PERIOD</b>	<u>\$ 6,440</u>	<u>\$ 4,210</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

**Rocky Brands, Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

We are a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky, Georgia Boot, Durango and Lehigh. Our brands have a long history of representing high quality, comfortable, functional and durable footwear and our products are organized around six target markets: outdoor, work, duty, commercial military, western and lifestyle. In addition, as part of our strategy of outfitting consumers from head-to-toe, we market complementary branded apparel and accessories that we believe leverage the strength and positioning of each of our brands.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments that are necessary for a fair presentation of the financial results. All such adjustments reflected in the unaudited condensed consolidated financial statements are considered to be of a normal and recurring nature. The results of operations for the three and nine months ended September 30, 2019 and 2018 are not necessarily indicative of the results to be expected for the whole year. The December 31, 2018 condensed consolidated balance sheet data was derived from the audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). This Quarterly Report on Form 10-Q should be read in connection with our Annual Report on Form 10-K for the year ended December 31, 2018, which includes all disclosures required by GAAP.

**2. ACCOUNTING STANDARDS UPDATES**

***Recently Issued Accounting Pronouncements***

Rocky Brands, Inc. is currently evaluating the impact of certain Accounting Standards Updates ("ASU") on its Unaudited Condensed Consolidated Financial Statements or Notes to the Unaudited Condensed Consolidated Financial Statements:

Standard	Description	Anticipated Adoption Period	Effect on the financial statements or other significant matters
ASU 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	This pronouncement changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements.	Q1 2020	The Company is evaluating the impact of the new standard on its Unaudited Condensed Consolidated Financial Statements, but does not anticipate the standard will have a significant impact.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	The pronouncement seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	Q1 2020	The Company is evaluating the impacts of the new standard on its existing financial instruments, including trade receivables.

**Accounting Standards Adopted in the Current Year**

Standard	Description	Effect on the financial statements or other significant matters
ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-based Payment Accounting	The pronouncement simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees.	The Company adopted this ASU in the first quarter of 2019, which did not have a material effect on the Unaudited Condensed Consolidated Financial Statements.
ASU 2016-02, Leases (Topic 842)	The pronouncement introduces a lessee model that brings most leases on the balance sheet. The standard requires that lessees recognize the following for all leases (with the exception of short-term leases, as that term is defined in the standard) at the lease commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.	This standard was adopted on its effective date, January 1, 2019 using the modified retrospective approach. For additional information see Note 9.

**3. FAIR VALUE**

Generally accepted accounting standards establish a framework for measuring fair value. The fair value accounting standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard clarifies how to measure fair value as permitted under other accounting pronouncements.

The fair value accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. This standard also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The fair values of cash and cash equivalents, receivables, and payables approximated their carrying values because of the short-term nature of these instruments. Receivables consist primarily of amounts due from our customers, net of allowances, amounts due from employees (sales persons’ advances in excess of commissions earned and employee travel advances); other customer receivables, net of allowances; and expected insurance recoveries. The carrying amounts of our long-term credit facility and other short-term financing obligations also approximate fair value, as they are comparable to the available financing in the marketplace during the year. The fair value of our revolving line of credit is categorized as Level 2.

**4. REVENUE**

On January 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (“New Revenue Standard”) for all contracts not yet completed as of January 1, 2018 using the modified retrospective method. This method requires a cumulative effect adjustment to reflect the impact of initially applying the New Revenue Standard as an adjustment to the opening balance of retained earnings. The New Revenue Standard did not result in a material impact to the opening balance of retained earnings, and therefore no adjustment was made.



## **Nature of Performance Obligations**

Our products are distributed through three distinct channels, which represent our reportable business segments: Wholesale, Retail, and Military. In our Wholesale business, we distribute our products through a wide range of distribution channels representing over ten thousand retail store locations in the U.S., Canada, and internationally. Our Wholesale channels vary by product line and include sporting goods stores, outdoor specialty stores, online retailers, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Our Retail business includes direct sales of our products to consumers through our e-commerce websites, our Rocky outlet store, and Lehigh business. We also sell footwear under the Rocky label to the U.S. Military.

## **Significant Accounting Policies and Judgements**

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; this generally occurs upon shipment of our product to our customer, which is when the transfer of control of our products passes to the customer. The duration of our arrangements with our customers are typically one year or less. Revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of our products at a point in time and consists of either fixed or variable consideration or a combination of both.

Revenues from sales are recorded at the net sales price, which includes estimates of variable consideration for which reserves are established. Components of variable consideration include prompt payment discounts, volume rebates, and product returns. These reserves, as detailed below, are based on the amounts earned, or to be claimed on the related sales, and are classified as reductions of accounts receivable (if the amount is payable to the customer) or a current liability (if the amount is payable to a party other than a customer).

The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period. Our analyses also contemplated application of the constraint in accordance with the guidance, under which it determined a material reversal of revenue would not occur in a future period for the estimates detailed below as of September 30, 2019. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we will adjust these estimates, which would affect net revenue and earnings in the period such variances become known.

When a customer has a right to a prompt payment discount, we estimate the likelihood that the customer will earn the discount using historical data and adjust our estimate when the estimate of the likelihood that a customer will earn the discount changes or the consideration becomes fixed, whichever occurs earlier. The estimated amount of variable consideration is recognized as a credit to trade receivables and a reduction in revenue until the uncertainty of the variable consideration is alleviated. Because most of our customers have payment terms less than six months there is not a significant financing component in our contracts with customers.

When a customer is offered a rebate on purchases retroactively this is accounted for as variable consideration because the consideration for the current and past purchases is not fixed until it is known if the discount is earned. We estimate the expected discount the customer will earn at contract inception using historical data and projections and update our estimates when projections materially change or consideration becomes fixed. The estimated rebate is recognized as a credit to trade receivables and offset against revenue until the rebate is earned or the earning period has lapsed.

When a right of return is part of the arrangement with the customer, we estimate the expected returns based on an analysis using historical data. We adjust our estimate either when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed, whichever occurs earlier. Please see Notes 5 and 6 for additional information.

Trade receivables represent our right to unconditional payment that only relies on the passage of time.

Contract receivables primarily represent contractual minimum payments required under non-cancellable contracts with the U.S. Military with a duration of one year or less.

Contract liabilities are performance obligations that we expect to satisfy or relieve within the next twelve months, advance consideration obtained prior to satisfying a performance obligation, or unconditional obligations to provide goods or services under non-cancellable contracts before the transfer of goods or services to the customer has occurred. Our contract liability represents unconditional obligations to provide goods under non-cancellable contracts with the U.S. Military.

Items considered immaterial within the context of the contract are recognized as an expense.



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Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue producing transaction, that are collected from customers, are excluded from revenue.

Costs associated with our manufacturer's warranty continue to be recognized as expense when the products are sold in accordance with guidance surrounding product warranties.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in operating expenses.

Costs associated with obtaining a contract are expensed as incurred in accordance with the practical expedient in ASC 340-40 in instances where the amortization period is one year or less. We anticipate substantially all of our costs incurred to obtain a contract would be subject to this practical expedient.

### **Contract Balances**

The following table provides information about contract liabilities from contracts with our customers.

(\$ in thousands)	September 30, 2019	December 31, 2018	September 30, 2018
Contract liabilities	\$ 1,936	\$ 2,602	\$ 4,849

Significant changes in the contract liabilities balance during the period are as follows:

(\$ in thousands)	Contract liabilities
Balance, December 31, 2018	\$ 2,602
Non-cancelable contracts with customers entered into during the period	2,458
Revenue recognized related to non-cancelable contracts with customers during the period	(3,124)
Balance, September 30, 2019	\$ 1,936

### **Disaggregation of Revenue**

All revenues are recognized at a point in time when control of our products pass to the customer at point of shipment. Because all revenues are recognized at a point in time and are disaggregated by channel, our segment disclosures are consistent with ASC 606 disaggregation requirements. See Note 13 for segment disclosures.

## 5. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately \$1,251,000, \$1,268,000 and \$1,357,000 at September 30, 2019, December 31, 2018 and September 30, 2018, respectively. We record the allowance based on historical experience, the age of the receivables, and identification of customer accounts that are likely to prove difficult to collect due to various criteria including pending bankruptcy. However, estimates of the allowance in any future period are inherently uncertain and actual allowances may differ from these estimates. If actual or expected future allowances were significantly greater or less than established reserves, a reduction or increase to bad debt expense would be recorded in the period this determination was made. Our credit policy generally provides that trade receivables will be deemed uncollectible and written-off once we have pursued all reasonable efforts to collect on the account.

In accordance with ASC 606, the return reserve liability netted against trade receivables was approximately \$1,073,000, \$1,154,000 and \$908,000 for the periods ending September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

## 6. INVENTORY

Inventories are comprised of the following:

(\$ in thousands)	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 11,909	\$ 12,986	\$ 14,311
Work-in-process	946	715	876
Finished goods	70,026	59,121	63,222
Total	<u>\$ 82,881</u>	<u>\$ 72,822</u>	<u>\$ 78,409</u>

In accordance with ASC 606, the return reserve asset netted against inventories was \$649,000, \$694,000 and \$555,000 for the periods ending September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

## 7. IDENTIFIED INTANGIBLE ASSETS

A schedule of identified intangible assets is as follows:

(\$ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
<b>September 30, 2019</b>			
<b>Trademarks</b>			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 739	156
Total Intangibles	<u>\$ 30,987</u>	<u>\$ 739</u>	<u>\$ 30,248</u>
<b>December 31, 2018</b>			
<b>Trademarks</b>			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 714	181
Total Intangibles	<u>\$ 30,987</u>	<u>\$ 714</u>	<u>\$ 30,273</u>
<b>September 30, 2018</b>			
<b>Trademarks</b>			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 704	191
Total Intangibles	<u>\$ 30,987</u>	<u>\$ 704</u>	<u>\$ 30,283</u>



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The weighted average life for our patents is 3.9 years.

A schedule of approximate amortization expense related to finite-lived intangible assets for the three and nine months ended September 30, 2019 and 2018 is as follows:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Amortization expense	\$ 8	\$ 10	25	\$ 32

A schedule of approximate expected amortization expense related to finite-lived intangible assets for the years ending December 31, is as follows:

(\$ in thousands)	Amortization Expense
10/01/2019 - 12/31/2019	8
2020	31
2021	26
2022	22
2023	20
2024	17
2025+	33

## 8. LONG-TERM DEBT

On February 13, 2019, we entered into a Revolving Credit, Guaranty, and Security Agreement (“Credit Agreement”) with the Huntington National Bank (“Huntington”) as administrative agent. The Credit Agreement provides for a new senior secured asset-based revolving credit facility up to a principal amount of \$75 million, which includes a sublimit for the issuance of letters of credit up to \$7.5 million (the “Credit Facility”). The Credit Facility may be increased up to an additional \$25 million at our request and the lenders’ option, subject to customary conditions. The Credit Agreement matures on February 13, 2024. This new Credit Agreement replaced our previous financing agreement with PNC Bank (“PNC”).

Revolving Pricing Level	Average Excess Revolver Availability for Previous Quarter	Applicable Spread Rates for Eurodollar Rate Revolving Advances	Applicable Spread Rates for Domestic Rate Revolving Advances
I	\$ 25,000,000+	1.00 %	(0.50)%
II	\$ 17,500,000 to < 25,000,000	1.25 %	(0.50)%
III	\$ 10,000,000 to < 17,500,000	1.50 %	(0.25)%
IV	\$ < 10,000,000	1.75 %	0.00 %

The total amount available under our new Credit Facility is subject to a borrowing base calculation based on various percentages of accounts receivable and inventory. As of September 30, 2019, we had total capacity of \$74.9 million.

In December 2014, we amended and restated our financing agreement with PNC to increase the credit facility to \$75.0 million and extend the term of the facility an additional five years to November 2019. The credit facility’s base interest rate was the current prime rate less 0.25%, however the credit facility provided us the option to borrow on up to eight fixed loans at LIBOR plus 1.25% in accordance with the 2014 amended and restated credit agreement. The LIBOR rate was determined based on the fixed loan maturities, which vary from 30, 60, 90, or 180 days.

As of September 30, 2019 we had no outstanding borrowings against the new Credit Facility and as of December 31, 2018 and September 30, 2018, respectively, we had no outstanding borrowings against our previously amended and restated credit facility.

## **Credit Facility Covenants**

Both our new Credit Facility and our previously amended and restated credit facility contain restrictive covenants which require us to maintain a fixed charge coverage ratio. These restrictive covenants are only in effect upon a triggering event taking place (as defined in both agreements). Both our new Credit Facility and the previously amended and restated credit facility contain restrictions on the amount of dividends that may be paid. During the nine months ended September 30, 2019, there were no triggering events and the covenant was not in effect for the new Credit Facility.

## **9. LEASES**

In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements (please see additional detail regarding these updates to Topic 842 below). The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the Unaudited Condensed Consolidated Statements of Operations.

The new standard was effective for us on January 1, 2019, with early adoption permitted. We adopted the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. We adopted the new standard on January 1, 2019 and used the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides several optional practical expedients in transition. We elected the ‘package of practical expedients’, which permits us not to reassess, under the new standard, our prior conclusions about lease identification, lease classification and initial direct costs. We did not elect the use-of-hindsight with respect to determining the lease term (i.e., considering the actual outcome and updated expectations of lease renewals, termination option and purchase options). We also did not elect the use of the practical expedient pertaining to land easements because we do not have any such easements.

The new standard also provides practical expedients for an entity’s ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for our leases.

This standard had a material effect on our Unaudited Condensed Consolidated Balance Sheets, specifically, the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our factories in the Dominican Republic and Puerto Rico and various equipment leases, all currently accounted for as operating leases; and (2) providing significant new disclosures about our leasing activities. Adoption of the standard did not have a material impact on our Unaudited Condensed Consolidated Statements of Cash Flows. We do not expect a significant change in our leasing activities as a result of this standard. Many of our leases contain renewal options, most of which are not included in the measurement of the right-of-use asset as they are not considered reasonably certain of exercise (i.e. we do not currently have a significant economic incentive to exercise these options).

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The operating ROU asset and operating lease liabilities as of September 30, 2019 and upon adoption of ASC 842 are as follows:

(\$ in thousands)	September 30, 2019	(Upon ASC 842 Adoption) January 1, 2019	Financial Statement Line Item
<b>Assets:</b>			
Operating ROU Assets	\$ 1,781	\$ 1,136	Leased assets
<b>Liabilities:</b>			
Current			
Operating	\$ 601	\$ 626	Other current liabilities
Noncurrent			
Operating	1,188	544	Long-term lease
Total leased liabilities	\$ 1,789	\$ 1,170	

Maturity of our operating lease liabilities are as follows:

(\$ in thousands)	Operating Leases
10/01/2019 through 12/31/2019	\$ 223
2020	594
2021	474
2022	317
2023	255
2024	78
Total lease payments	1,941
Less: Interest	152
Present value of lease liabilities	\$ 1,789

For the nine months ended September 30, 2019 the weighted average remaining lease term and discount rate were as follows:

	September 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	2.3
Weighted-average discount rate	
Operating leases	4.7 %

For the nine months ended September 30, 2019 the supplemental cash flow information is as follows:

(\$ in thousands)	September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 244
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	\$ 680

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The breakdown of rent expense for our operating leases for the three and nine months ended September 30, 2019 and 2018, respectively are as follows:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		Financial Statement Item	Line Item
	September 30,		September 30,			
(\$ in thousands)	2019		2019			
Operating lease expenses - Manufacturing & Sourcing <sup>(1)</sup>	\$	150	\$	324		Cost of goods sold
Operating lease expenses <sup>(1)</sup>		102		149		Operating expenses
Total lease expenses	\$	<u>252</u>	\$	<u>473</u>		

<sup>(1)</sup> Includes short-term lease expenses of approximately \$32,000 and \$82,000 for the three and nine months ended September 30, 2019.

## 10. TAXES

We are subject to tax examinations in various taxing jurisdictions. The earliest exam years open for examination are as follows:

	<u>Earliest Exam Year</u>
<u>Taxing Authority Jurisdiction:</u>	
U.S. Federal	2015
Various U.S. States	2014
Puerto Rico (U.S. Territory)	2013
Canada	2013

Our policy is to accrue interest and penalties on any uncertain tax position as a component of income tax expense. No such expenses were recognized during the three and nine months ended September 30, 2019. We do not believe there will be any material changes in our uncertain tax positions over the next 12 months.

Accounting for uncertainty in income taxes requires financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. Under this guidance, income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of the standard. We did not have any unrecognized tax benefits and there was no effect on its financial condition or results of operations.

Our estimated effective tax rate was 20.1% and 10.5%, 20.6%, and 16.2% for the three and nine months ended September 30, 2019 and 2018, respectively.

## 11. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding during each period. The diluted earnings per share computation includes common share equivalents, when dilutive.

A reconciliation of the shares used in the basic and diluted income per common share computation for the three and nine months ended September 30, 2019 and 2018 is as follows:

(shares in thousands)	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	September 30,		September 30,	
	2019	2018	2019	2018
Basic - weighted average shares outstanding	<u>7,400</u>	<u>7,418</u>	<u>7,392</u>	<u>7,412</u>
Dilutive restricted share units	2	2	4	1
Dilutive stock options	53	60	47	41
Diluted - weighted average shares outstanding	<u>7,455</u>	<u>7,480</u>	<u>7,443</u>	<u>7,454</u>
Anti-dilutive securities	<u>43</u>	<u>-</u>	<u>75</u>	<u>40</u>

## 12. SUPPLEMENTAL CASH FLOW INFORMATION



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Supplemental cash flow information for the nine months ended September 30, 2019 and 2018 is as follows:

(\$ in thousands)	2019	2018
Interest paid	\$ 101	\$ 140
Federal, state, and local income taxes paid, net	\$ 5,360	\$ 497
Change in contract receivables, net	\$ (2,036)	\$ (4,849)
Change in contract liabilities, net	\$ 1,936	\$ 4,849
Property, plant, and equipment purchases in accounts payable	\$ 470	\$ 120

### 13. SEGMENT INFORMATION

We have identified three reportable segments: Wholesale, Retail and Military. Wholesale includes sales of footwear and accessories to several classifications of retailers, including sporting goods stores, outdoor specialty stores, online retailers, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Our Retail business includes direct sales of our products to consumers through our e-commerce websites, our Rocky outlet store, and Lehigh business. Military includes sales to the U.S. Military. The following is a summary of segment results for the Wholesale, Retail, and Military segments for the three and nine months ended September 30, 2019 and 2018.

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>NET SALES:</b>				
Wholesale	\$ 47,242	\$ 47,001	\$ 130,260	\$ 127,236
Retail	14,490	11,915	44,035	36,712
Military	5,447	7,000	20,772	21,560
Total Net Sales	\$ 67,179	\$ 65,916	\$ 195,067	\$ 185,508
<b>GROSS MARGIN:</b>				
Wholesale	\$ 16,379	\$ 15,449	\$ 44,157	\$ 42,492
Retail	6,593	5,344	19,371	16,145
Military	2,042	1,607	5,906	4,261
Total Gross Margin	\$ 25,014	\$ 22,400	\$ 69,434	\$ 62,898

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**RESULTS OF OPERATIONS**

The following tables set forth, for the periods indicated, information derived from our Unaudited Condensed Consolidated Financial Statements, expressed as a percentage of net sales. The discussion that follows each table should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements as well as our annual report on 10-K for the year ended December 31, 2018.

**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

(\$ in thousands)	Three Months Ended September 30,			
	2019	2018	Inc./ (Dec.)	Inc./ (Dec.)
<b>NET SALES:</b>				
Wholesale	\$ 47,242	\$ 47,001	\$ 241	0.5 %
Retail	14,490	11,915	2,575	21.6
Military	5,447	7,000	(1,553)	(22.2)
<b>Total Net Sales</b>	<b>\$ 67,179</b>	<b>\$ 65,916</b>	<b>\$ 1,263</b>	<b>1.9 %</b>

Wholesale sales increased slightly as consumers continued to respond favorably to several recent product introductions across our brand portfolio, which we believe is being fueled by new innovations and enhanced marketing programs that are generating increased awareness and demand in our western, outdoor and commercial military categories.

Retail sales increased primarily due to both a strong growth in our Lehigh business, which was primarily attributed to an expansion in our CustomFit model which continued to add larger national accounts as well as increased the retention rate of our existing customers, and a low double digit increase in our direct to consumer e-commerce business which we believe is attributable to recent investments aimed at increasing traffic and conversion on our web sales.

Military sales decreased as expected as we recently concluded a multi-year contract with the Department of Defense.

(\$ in thousands)	Three Months Ended September 30,			
	2019	2018	Inc./ (Dec.)	
<b>GROSS MARGIN:</b>				
Wholesale Margin \$'s	\$ 16,379	\$ 15,449	\$ 930	
<i>Margin %</i>	34.7 %	32.9 %		1.8 %
Retail Margin \$'s	\$ 6,593	\$ 5,344	\$ 1,249	
<i>Margin %</i>	45.5 %	44.9 %		0.6 %
Military Margin \$'s	\$ 2,042	\$ 1,607	\$ 435	
<i>Margin %</i>	37.5 %	23.0 %		14.5 %
<b>Total Margin \$'s</b>	<b>\$ 25,014</b>	<b>\$ 22,400</b>	<b>\$ 2,614</b>	
<i>Margin %</i>	37.2 %	34.0 %		3.2 %

Wholesale gross margin increased year over year due to stronger initial margins on some newer products, selling less discontinued product and a one-time reimbursement of expenses in the amount of \$169,000 associated with the temporary closure of the Puerto Rican manufacturing facility as a result of Hurricane Maria in 2017.

Retail gross margin increased as we saw a strong increase in our e-commerce business which carries higher margins than our Lehigh Branded business.

Military gross margin increased significantly as we continued to see better efficiency at our Puerto Rico facility and a one-time reimbursement of expenses in the amount of \$581,000 associated with the temporary closure of the Puerto Rican manufacturing facility as a result of Hurricane Maria in 2017.



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Three Months Ended  
September 30,

(\$ in thousands)	2019	2018	Inc./ (Dec.)	Inc./ (Dec.)
<b>OPERATING EXPENSES:</b>				
Operating Expenses	\$ 18,027	\$ 16,791	\$ 1,236	7.4 %
% of Net Sales	<u>26.8 %</u>	<u>25.5 %</u>	<u>1.3 %</u>	

The increase in operating expenses was primarily related to the increased investments in our core brands to help initiate growth and expand within our respective markets and variable expenses tied to sales increases in our wholesale and retail channels.

Three Months Ended  
September 30,

(\$ in thousands)	2019	2018	Inc./ (Dec.)	Inc./ (Dec.)
<b>INCOME TAXES:</b>				
Income Tax Expense	\$ 1,414	\$ 595	\$ 819	137.7 %
Effective Tax Rate	<u>20.1 %</u>	<u>10.5 %</u>	<u>9.6 %</u>	

The effective tax rate increased to 20.1% for the three months ended September 30, 2019 compared to 10.5% in the prior year period. This was due to a reduction made in the third quarter of 2018 related to the one-time transition tax on the deemed repatriation of undistributed foreign earnings as a result of further analysis of the provisions of the Tax Cuts and Jobs Act.

**Nine months ended September 30, 2019 Compared to Nine months ended September 30, 2018**

Nine Months Ended  
September 30,

(\$ in thousands)	2019	2018	Inc./ (Dec.)	Inc./ (Dec.)
<b>NET SALES:</b>				
Wholesale	\$ 130,260	\$ 127,236	\$ 3,024	2.4 %
Retail	44,035	36,712	7,323	19.9
Military	20,772	21,560	(788)	(3.7)
Total Net Sales	<u>\$ 195,067</u>	<u>\$ 185,508</u>	<u>\$ 9,559</u>	<u>5.2 %</u>

Wholesale sales increased as consumers continued to respond favorably to several recent product introductions across our brand portfolio, which we believe is being fueled by new innovations and enhanced marketing programs that are generating increased awareness and demand in our work, western, outdoor and commercial military categories.

Retail sales increased primarily due to both a strong growth in our Lehigh business, which was primarily attributed to an expansion in our CustomFit model which continued to add larger national accounts as well as increased the retention rate of our existing customers, and a significant increase in our direct to consumer e-commerce business which we believe is attributable to recent investments aimed at increasing traffic and conversions on our web sales.

Military sales decreased as expected as we recently concluded a multi-year contract with the Department of Defense.

Nine Months Ended  
September 30,

(\$ in thousands)	2019	2018	Inc./ (Dec.)
<b>GROSS MARGIN:</b>			
Wholesale Margin \$'s	\$ 44,157	\$ 42,492	\$ 1,665
Margin %	33.9 %	33.4 %	0.5 %
Retail Margin \$'s	\$ 19,371	\$ 16,145	\$ 3,226
Margin %	44.0 %	44.0 %	- %
Military Margin \$'s	\$ 5,906	\$ 4,261	\$ 1,645



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<i>Margin %</i>		<u>28.4 %</u>		<u>19.8 %</u>		<u>8.6 %</u>
Total Margin \$'s	\$	69,434	\$	62,898	\$	6,536
<i>Margin %</i>		<u>35.6 %</u>		<u>33.9 %</u>		<u>1.7 %</u>

Wholesale gross margin increased year over year due to stronger initial margins on some newer products, selling less discontinued product and a one-time reimbursement of expenses in the amount of \$169,000 associated with the temporary closure of the Puerto Rican manufacturing facility as a result of Hurricane Maria in 2017.

Retail gross margin remained flat year over year.

Military gross margin increased significantly as we continued to see better efficiency at our Puerto Rico facility and a one-time reimbursement of expenses in the amount of \$581,000 associated with the temporary closure of the Puerto Rican manufacturing facility as a result of Hurricane Maria in 2017.

	Nine Months Ended September 30,			
(\$ in thousands)	2019	2018	Inc./ (Dec.)	Inc./ (Dec.)
<b>OPERATING EXPENSES:</b>				
Operating Expenses	\$ 54,004	\$ 49,688	\$ 4,316	8.7 %
% of Net Sales	<u>27.7 %</u>	<u>26.8 %</u>	<u>0.9 %</u>	

The increase in operating expenses was primarily related to the increased investments in our core brands to help initiate growth and expand within our respective markets and variable expenses tied to sales increases.

	Nine Months Ended September 30,			
(\$ in thousands)	2019	2018	Inc./ (Dec.)	Inc./ (Dec.)
<b>INCOME TAXES:</b>				
Income Tax Expense	\$ 3,212	\$ 2,117	\$ 1,095	51.7 %
Effective Tax Rate	<u>20.6 %</u>	<u>16.2 %</u>	<u>4.4 %</u>	

The effective tax rate increased to 20.6% for the nine months ended September 30, 2019 compared to 16.2% in the prior year period. This was due to a reduction made in the third quarter of 2018 related to the one-time transition tax on the deemed repatriation of undistributed foreign earnings as a result of further analysis of the provisions of the Tax Cuts and Jobs Act.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Our principal sources of liquidity have been our income from operations and borrowings under our credit facility and other indebtedness.

Over the last several years our principal uses of cash have been for working capital and capital expenditures to support our growth. Our working capital consists primarily of trade receivables and inventory, offset by accounts payable and accrued expenses. Our working capital fluctuates throughout the year as a result of our seasonal business cycle and business expansion and is generally lowest in the months of January through March of each year and highest during the months of May through October of each year. We typically utilize our revolving credit facility to fund our seasonal working capital requirements. As a result, balances on our revolving credit facility can fluctuate significantly throughout the year.

Our capital expenditures relate primarily to projects relating to our corporate offices, property, merchandising fixtures, molds and equipment associated with our manufacturing and distribution operations and for information technology. Capital expenditures were \$5.8 million and \$3.5 million for the nine months ended September 30, 2019 and 2018, respectively.

We lease certain machinery, a shoe center, and manufacturing facilities under operating leases that generally provide for renewal options.

We believe that our credit facility coupled with cash generated from operations will provide sufficient liquidity to fund our operations for at least the next twelve months. Our continued liquidity, however, is contingent upon future operating performance, cash flows and our ability to meet financial covenants under our credit facility. For more information regarding our credit facility please see Note 8.

### Cash Flows

(\$ in millions)	Nine Months Ended	
	September 30,	
	2019	2018
Operating activities	\$ 4.9	\$ 8.7
Investing activities	(6.1)	(3.5)
Financing activities	(2.6)	(4.7)
Net change in cash and cash equivalents	\$ (3.8)	\$ 0.5

*Operating Activities.* Cash provided by operating activities was primarily impacted by an increase in inventory and accounts receivable, partially offset by an increase in accounts payable and accrued liabilities for the nine months ended September 30, 2019. Cash provided by operating activities was primarily impacted by an increase in accounts payable, accrued liabilities, and income taxes payable, partially offset by an increase in accounts receivable and inventory for the nine months ended September 30, 2018.

*Investing Activities.* Cash used in investing activities was primarily related to investments in molds and equipment associated with our manufacturing operations, for information technology and for improvements to our distribution facility for the nine months ended September 30, 2019 and 2018.

*Financing Activities.* Cash used in financing activities was primarily related to payments of dividends on our common stock for the nine months ended September 30, 2019. For the nine months ended September 30, 2018, cash used in financing activities was primarily related to payments under the revolving credit facility and for the payment of dividends on our common stock.

### Inflation

Our financial performance is influenced by factors such as higher raw material costs as well as higher salaries and employee benefits. Management attempts to minimize or offset the effects of inflation through increased selling prices, productivity improvements, and cost reductions. We were able to mitigate the effects of inflation during 2018 due to these factors. It is anticipated that any inflationary pressures during 2019 could be offset through possible price increases.



## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of the Company's Unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Historically, actual results have not been materially different from the Company's estimates. However, actual results may differ materially from these estimates under different assumptions or conditions.

We have identified the critical accounting policies used in determining estimates and assumptions in the amounts reported in our Management Discussion and Analysis of Financial Conditions and Results of Operations in our 2018 Form 10-K.

On January 1, 2019, we adopted the new accounting standard ASC 842, Leases, and all the related amendments. For additional information regarding the adoption of ASC 842 see Note 9.

## **SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES REFORM ACT OF 1995**

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief, and expectations, such as statements concerning our future profitability and our operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "strategy," "future," "likely," "would," "could" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risk and uncertainties including, without limitations, dependence on sales forecasts, changes in consumer demand and expectations, seasonality, impact of weather, competition, reliance on suppliers, risks inherent to international trade, changing retail trends, the loss or disruption of our manufacturing and distribution operations, cybersecurity breaches or disruption of our digital systems, fluctuations in foreign currency exchange rates, economic changes, as well as other factors set forth under the caption "Item 1A, Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 (filed March 13, 2019), and other factors detailed from time to time in our filings with the Securities and Exchange Commission. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We assume no obligation to update any forward-looking statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes to our market risk as disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **ITEM 4. CONTROLS AND PROCEDURES.**

*Disclosure Controls and Procedures.* Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 and 15d-15 promulgated under the Exchange Act. Based upon this evaluation, our chief executive officer and our chief financial officer concluded that, as of September 30, 2019, our disclosure controls and procedures were (1) designed to ensure that material information relating to our Company is accumulated and made known to our management, including our chief executive officer and chief financial officer, in a timely manner, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Management believes, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

*Changes in Internal Controls.* There were no changes to our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II -- OTHER INFORMATION**

### **ITEM 1A - RISK FACTORS**

There have been no material changes to our risk factors as disclosed in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018.

**ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Unregistered Sales of Equity Securities**

None.

**Use of Proceeds**

Not applicable.

The following table sets forth information concerning the Company's purchases of common stock for the periods indicated:

<u>Period</u>	<u>Total number of shares (or units) purchased (1)</u>	<u>Average price paid per share (or units)</u>	<u>Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (2)</u>
July 1, 2019 - July 31, 2019	-	-	\$ 7,500,000
August 1, 2019 - August 31, 2019	-	-	7,500,000
September 1, 2019 - September 30, 2019	-	-	7,500,000
Total	<u>-</u>	<u>-</u>	<u>\$ 7,500,000</u>

On March 4, 2019, the Company announced a \$7,500,000 share repurchase plan. The repurchase program terminates on February 28, 2020. This program is replacing the \$7,500,000 share repurchase plan that was announced on March 1, 2018 that expired on March 1, 2019.

**ITEM 6. EXHIBITS**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
31.1*	<a href="#">Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Principal Executive Officer.</a>
31.2*	<a href="#">Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Principal Financial Officer.</a>
32**	<a href="#">Section 1350 Certification of Principal Executive Officer/Principal Financial Officer.</a>
101*	Attached as Exhibits 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 formatted in XBRL ("eXtensible Business Reporting Language"): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements.

\* Filed with this Report.

\*\* Furnished with this Report.

**SIGNATURE**

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.

ROCKY BRANDS, INC.

Date: November 5, 2019

By: /s/THOMAS D. ROBERTSON  
Thomas D. Robertson  
Executive Vice President, Chief Financial Officer  
and Treasurer  
(Principal Financial and Accounting Officer and  
Duly Authorized Officer)

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## Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

### **CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) OF THE PRINCIPAL EXECUTIVE OFFICER**

I, Jason Brooks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal

control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ Jason Brooks

Jason Brooks

Chief Executive Officer (Principal Executive Officer)

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## Section 3: EX-31.2 (EX-31.2)

**Exhibit 31.2**

### **CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) OF THE PRINCIPAL FINANCIAL OFFICER**

I, Tom Robertson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record,

process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ Thomas D. Robertson

Thomas D. Robertson

Executive Vice President, Chief Financial  
Officer and Treasurer

(Principal Financial and Accounting Officer)

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## Section 4: EX-32 (EX-32)

Exhibit 32

**CERTIFICATION PURSUANT TO RULE 13a - 14(b) AND  
SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE  
UNITED STATES CODE AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Rocky Brands, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to Section 1350 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jason Brooks

Jason Brooks

Chief Executive Officer (Principal Executive Officer)

November 5, 2019

/s/ Thomas D. Robertson

Thomas D. Robertson

Executive Vice President, Chief Financial Officer and  
Treasurer

(Principal Financial and Accounting Officer)

November 5, 2019

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