

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, 2020  
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. 31-136406**

(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**

Title of class	Trading symbol	Name of exchange on which registered
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  
 Non-accelerated filer

- 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 7,242,431 shares of the Registrant's Common Stock outstanding on October 31, 2020.

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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> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 19,947	\$ 15,518	\$ 6,440
Trade receivables – net	49,188	45,585	50,700
Contract receivables	-	4,746	2,036
Other receivables	364	366	310
Inventories – net	80,655	76,731	82,881
Income tax receivable	-	150	-
Prepaid expenses	3,611	3,030	2,656
Total current assets	<u>153,765</u>	<u>146,126</u>	<u>145,023</u>
LEASED ASSETS	1,399	1,743	1,781
PROPERTY, PLANT & EQUIPMENT – net	31,325	27,423	25,150
IDENTIFIED INTANGIBLES – net	30,216	30,240	30,248
OTHER ASSETS	<u>355</u>	<u>294</u>	<u>293</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>217,060</u></b>	<b>\$ <u>205,826</u></b>	<b>\$ <u>202,495</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 23,834	\$ 15,776	\$ 20,531
Contract liabilities	-	4,746	1,936
Accrued expenses:			
Salaries and wages	3,813	3,044	2,791
Taxes - other	789	967	624
Accrued freight	729	867	495
Commissions	544	608	488
Accrued duty	4,586	3,824	2,597
Income tax payable	422	-	19
Other	<u>1,563</u>	<u>1,702</u>	<u>1,766</u>
Total current liabilities	36,280	31,534	31,247
LONG-TERM TAXES PAYABLE	169	169	169
LONG-TERM LEASE	833	1,158	1,188
DEFERRED INCOME TAXES	8,108	8,108	7,780
DEFERRED LIABILITIES	<u>238</u>	<u>201</u>	<u>230</u>
<b>TOTAL LIABILITIES</b>	<b>45,628</b>	<b>41,170</b>	<b>40,614</b>
<b>SHAREHOLDERS' EQUITY:</b>			
<b>Common stock, no par value;</b>			
25,000,000 shares authorized; issued and outstanding September 30, 2020 - 7,276,379; December 31, 2019 - 7,354,970 and September 30, 2019 - 7,403,219	66,604	67,993	69,273
Retained earnings	<u>104,828</u>	<u>96,663</u>	<u>92,608</u>
Total shareholders' equity	<u>171,432</u>	<u>164,656</u>	<u>161,881</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ <u>217,060</u></b>	<b>\$ <u>205,826</u></b>	<b>\$ <u>202,495</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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
NET SALES	\$ 77,785	\$ 67,179	\$ 189,691	\$ 195,067
COST OF GOODS SOLD	<u>47,952</u>	<u>42,165</u>	<u>121,077</u>	<u>125,633</u>
GROSS MARGIN	29,833	25,014	68,614	69,434
OPERATING EXPENSES	<u>20,175</u>	<u>18,027</u>	<u>54,344</u>	<u>54,004</u>
INCOME FROM OPERATIONS	9,658	6,987	14,270	15,430
OTHER (EXPENSES) INCOME	<u>(55)</u>	<u>43</u>	<u>(112)</u>	<u>160</u>
INCOME BEFORE INCOME TAXES	9,603	7,030	14,158	15,590
INCOME TAX EXPENSE	<u>1,992</u>	<u>1,414</u>	<u>2,917</u>	<u>3,212</u>
NET INCOME	<u>\$ 7,611</u>	<u>\$ 5,616</u>	<u>\$ 11,241</u>	<u>\$ 12,378</u>
INCOME PER SHARE				
Basic	\$ 1.04	\$ 0.76	\$ 1.54	\$ 1.67
Diluted	\$ 1.04	\$ 0.75	\$ 1.53	\$ 1.66
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	<u>7,306</u>	<u>7,400</u>	<u>7,323</u>	<u>7,392</u>
Diluted	<u>7,336</u>	<u>7,455</u>	<u>7,352</u>	<u>7,443</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		Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount			
BALANCE - December 31, 2018	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)				(886)	(886)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	17	\$ 294			294
Stock compensation expense	6	168			168
BALANCE - March 31, 2019	7,391	\$ 68,849	\$ -	\$ 85,907	\$ 154,756
Net income			\$	3,156	\$ 3,156
Dividends paid on common stock (\$0.14 per share)				(1,035)	(1,035)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	-	-			-
Stock compensation expense	3	\$ 164			164
BALANCE - June 30, 2019	7,394	\$ 69,013	\$ -	\$ 88,028	\$ 157,041
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
BALANCE - September 30, 2019	7,403	\$ 69,273	\$ -	\$ 92,608	\$ 161,881
BALANCE - December 31, 2019	7,355	\$ 67,993	\$ -	\$ 96,663	\$ 164,656
<b>NINE MONTHS ENDED SEPT 30, 2020</b>					
Net income			\$	1,188	\$ 1,188
Dividends paid on common stock (\$0.14 per share)				(1,030)	(1,030)
Repurchase of common stock	(50)	\$ (1,000)			(1,000)
Stock issued for options exercised, including tax benefits	-	-			-
Stock compensation expense	4	202			202
BALANCE - March 31, 2020	7,309	\$ 67,195	\$ -	\$ 96,821	\$ 164,016
Net income			\$	2,442	\$ 2,442
Dividends paid on common stock (\$0.14 per share)				(1,023)	(1,023)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	-	-			-
Stock compensation expense	3	\$ 194			194
BALANCE - June 30, 2020	7,312	\$ 67,389	\$ -	\$ 98,240	\$ 165,629
Net income			\$	7,611	\$ 7,611
Dividends paid on common stock (\$0.14 per share)				(1,023)	(1,023)
Repurchase of common stock	(41)	\$ (1,004)			(1,004)
Stock issued for options exercised, including tax benefits	2	29			29
Stock compensation expense	3	190			190
BALANCE - September 30, 2020	7,276	\$ 66,604	\$ -	\$ 104,828	\$ 171,432

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,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 11,241	\$ 12,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,805	3,767
Deferred compensation	-	74
Loss on disposal of fixed assets	-	7
Stock compensation expense	586	496
Change in assets and liabilities:		
Receivables	1,295	(6,747)
Inventories	(3,924)	(10,059)
Other current assets	(1,656)	(3,227)
Other assets	(62)	(115)
Accounts payable	8,989	7,201
Accrued and other liabilities	(2,600)	1,096
Income taxes payable	422	19
Net cash provided by operating activities	<u>18,096</u>	<u>4,890</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(8,618)	(6,054)
Proceeds from sales of fixed assets	<u>3</u>	<u>-</u>
Net cash used in investing activities	<u>(8,615)</u>	<u>(6,054)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from stock options	29	390
Repurchase of common stock	(2,004)	-
Dividends paid on common stock	<u>(3,077)</u>	<u>(2,959)</u>
Net cash (used in) financing activities	<u>(5,052)</u>	<u>(2,569)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>4,429</b>	<b>(3,733)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
BEGINNING OF PERIOD	<u>15,518</u>	<u>10,173</u>
END OF PERIOD	<u>\$ 19,947</u>	<u>\$ 6,440</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, 2020 and 2019 are not necessarily indicative of the results to be expected for the whole year. The December 31, 2019 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, 2019, which includes all disclosures required by GAAP.

**2. ACCOUNTING STANDARDS UPDATES**

**Recently Issued Accounting Pronouncements**

We are currently evaluating the impact of certain Accounting Standards Updates ("ASU") on its Unaudited Condensed Consolidated Financial Statements and Notes to the Unaudited Condensed Consolidated Financial Statements:

Standard	Description	Anticipated Adoption Period	Effect on the financial statements or other significant matters
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 2023 as long as we continue to qualify as a smaller reporting company	We are evaluating the impacts of the new standard on our existing financial instruments, including trade receivables.
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	This pronouncement is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application.	Q1 2021	We are evaluating the impacts of the new standard on our Consolidated Financial Statements.

*Accounting Standards Adopted in the Current Year*

Standard	Description	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.	We adopted the new standard in Q1 2020 and the standard did not have a significant impact on our Consolidated Financial Statements.

**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:

- ① Level 1 – Quoted prices in active markets for identical assets or liabilities.
- ② 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.
- ③ 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 approximate 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.

*Deferred Compensation Plan Assets and Liabilities*

On December 14, 2018, our Board of Directors adopted the Rocky Brands, Inc. Executive Deferred Compensation Plan (the “Deferred Compensation Plan”), which became effective January 1, 2019. The Deferred Compensation Plan is an unfunded nonqualified deferred compensation plan in which certain executives are eligible to participate. The deferrals are held in a separate trust, which has been established for the administration of the Deferred Compensation Plan. The trust assets are recorded within prepaid expenses in the accompanying unaudited consolidated balance sheets, with changes in the deferred compensation charged to operating expenses in the accompanying unaudited consolidated statements of operations. The fair value is based on unadjusted quoted market prices for the funds in active markets with sufficient volume and frequency (Level 1).



#### 4. REVENUE

##### **Nature of Performance Obligations**

Our products are distributed through three distinct channels, which represent our 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, 2020. 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 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.

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

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, 2020	December 31, 2019	September 30, 2019
Contract liabilities	\$ -	\$ 4,746	\$ 1,936

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

(\$ in thousands)	Contract liabilities
Balance, December 31, 2019	\$ 4,746
Non-cancelable contracts with customers entered into during the period	2,478
Revenue recognized related to non-cancelable contracts with customers during the period	(7,224)
Balance, September 30, 2020	\$ -

### 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 12 for segment disclosures.

## 5. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately \$192,000, \$952,000 and \$1,251,000 for the periods ending September 30, 2020, December 31, 2019 and September 30, 2019, 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 \$1,198,000, \$1,050,000 and \$1,073,000 for the periods ending September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

## 6. INVENTORY

Inventories are comprised of the following:

(\$ in thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Raw materials	\$ 12,967	\$ 12,466	\$ 11,909
Work-in-process	1,367	856	946
Finished goods	66,321	63,409	70,026
Total	<u>\$ 80,655</u>	<u>\$ 76,731</u>	<u>\$ 82,881</u>

In accordance with ASC 606, the return reserve asset included within inventories was approximately \$654,000, \$613,000 and \$649,000 for the periods ending September 30, 2020, December 31, 2019 and September 30, 2019, 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, 2020</b>			
Trademarks			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 771	124
<b>Total Intangibles</b>	<b>\$ 30,987</b>	<b>\$ 771</b>	<b>\$ 30,216</b>

(\$ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
<b>December 31, 2019</b>			
Trademarks			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 747	148
<b>Total Intangibles</b>	<b>\$ 30,987</b>	<b>\$ 747</b>	<b>\$ 30,240</b>

(\$ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
<b>September 30, 2019</b>			
Trademarks			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 739	156
<b>Total Intangibles</b>	<b>\$ 30,987</b>	<b>\$ 739</b>	<b>\$ 30,248</b>

The weighted average life for our patents is 3.4 years.

A schedule of approximate amortization expense related to finite-lived intangible assets for the three and nine months ended September 30, 2020 and 2019 is as follows:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Amortization expense	\$ 8	\$ 8	\$ 24	\$ 25

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
2020	\$ 31
2021	26
2022	22
2023	20
2024	17
2025	12
2026+	20

**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, 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.

Revolver 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 Credit Facility is subject to a borrowing base calculation based on various percentages of accounts receivable and inventory. As of September 30, 2020, we had total capacity of \$71.0 million.

We had no outstanding borrowings against the Credit Facility for the periods ending September 30, 2020, December 31, 2019 and September 30, 2019.

**Credit Facility Covenants**

Our Credit Facility contains 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. Our Credit Facility contains restrictions on the amount of dividends that may be paid. During the nine months ended September 30, 2020 and 2019, there were no triggering events and the covenant was not in effect.

**9. TAXES**

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

	Earliest Exam Year
Taxing Authority Jurisdiction:	
U.S. Federal	2016
Various U.S. States	2015
Puerto Rico (U.S. Territory)	2014
Canada	2014

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, 2020 and 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 our financial condition or results of operations.

Our estimated effective tax rates for the three and nine months ended September 30, 2020 and 2019 are as follows:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Effective Tax Rate	20.7 %	20.1 %	20.6 %	20.6 %

#### 10. 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, 2020 and 2019 is as follows:

(shares in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic - weighted average shares outstanding	7,306	7,400	7,323	7,392
Dilutive restricted share units	-	2	-	4
Dilutive stock options	30	53	29	47
Diluted - weighted average shares outstanding	7,336	7,455	7,352	7,443
Anti-dilutive securities	154	43	184	75

#### 11. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the nine months ended September 30, 2020 and 2019 was as follows:

(\$ in thousands)	Nine Months Ended September 30,	
	2020	2019
Interest paid	\$ 132	\$ 101
Federal, state, and local income taxes paid, net	\$ 479	\$ 5,360
Change in contract receivables, net	\$ 4,746	\$ (2,036)
Change in contract liabilities, net	\$ (4,746)	\$ 1,936
Property, plant, and equipment purchases in accounts payable	\$ 1,530	\$ 470

**12. 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 three and nine months ended September 30, 2020 and 2019 :

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>NET SALES:</b>				
Wholesale	\$ 56,347	\$ 47,242	\$ 125,614	\$ 130,260
Retail	16,141	14,490	49,359	44,035
Military	5,297	5,447	14,718	20,772
Total Net Sales	\$ <u>77,785</u>	\$ <u>67,179</u>	\$ <u>189,691</u>	\$ <u>195,067</u>
<b>GROSS MARGIN:</b>				
Wholesale	\$ 20,891	\$ 16,379	\$ 42,908	\$ 44,157
Retail	7,531	6,593	22,838	19,371
Military	1,411	2,042	2,868	5,906
Total Gross Margin	\$ <u>29,833</u>	\$ <u>25,014</u>	\$ <u>68,614</u>	\$ <u>69,434</u>

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

**OVERVIEW**

**COVID-19**

We are monitoring and responding to the evolving nature of the global novel coronavirus pandemic (“COVID-19” or “pandemic”) and its impact to our global business. We are experiencing multiple challenges related to the pandemic and these challenges are anticipated to have an effect on our overall business for the remainder of fiscal 2020. Our most significant impacts from COVID-19 relate to channel shifts and a decrease in production. During the first half of 2020, we saw sales shift from our wholesale channel to our retail channel as more consumers began using our online platforms while some stores were closed and several states were on mandatory stay at home orders. We continued to see some of that sales shift in the third quarter, but we also saw an increase in wholesale sales due to some pent-up demand as wholesale doors continued to open and many started resuming normalized hours of operation. Our manufacturing facilities are experiencing varying levels of production impacts, including increased volumes due to an increase in demand in the third quarter of 2020 and carrying over to the fourth quarter. As we continue to adjust to the changing landscape, we ensure that the health and safety of our team members is our top priority and to protect our employees, we are implementing all measures recommended by the Centers for Disease Control and Prevention (“CDC”). We will continue to proactively manage the Company and its operations through the pandemic; however, we cannot predict the ultimate impact that COVID-19 will have on our short- and long-term demand at this time, as it will depend on, among other things, the severity and duration of the COVID-19 pandemic.

Our liquidity is expected to be adequate to continue to run our operations and meet our obligations as they become due. During the second quarter, we repaid our draw down on our line of credit that was accessed as a precautionary measure at the beginning of the COVID-19 pandemic.

**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, 2019.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	61.6	62.8	63.8	64.4
Gross margin	38.4	37.2	36.2	35.6
Operating expenses	25.9	26.8	28.6	27.7
Income from operations	12.4 %	10.4 %	7.5 %	7.9 %

**Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019**

(\$ in thousands)	Three Months Ended			
	September 30,			
	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
<b>NET SALES:</b>				
Wholesale	\$ 56,347	\$ 47,242	\$ 9,105	19.3 %
Retail	16,141	14,490	1,651	11.4
Military	5,297	5,447	(150)	(2.8)
Total Net Sales	\$ <u>77,785</u>	\$ <u>67,179</u>	\$ <u>10,606</u>	<u>15.8 %</u>



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Wholesale sales increased primarily due to a strong demand for our products as stores continued to re-open and consumers started to return to shopping in stores following the initial shutdowns related to the COVID-19 pandemic.

Retail sales increased primarily due to our direct to consumer e-commerce business which we believe is attributable to both recent investments aimed at increasing traffic and conversion rates, as well as an increase in online shopping due to the COVID-19 pandemic.

Military sales decreased slightly due to less scheduled orders as we have had some contracts end within the last year.

(\$ in thousands)	Three Months Ended September 30,		
	2020	2019	Inc./ (Dec.)
<b>GROSS MARGIN:</b>			
Wholesale Margin \$'s	\$ 20,891	\$ 16,379	\$ 4,512
Margin %	37.1 %	34.7 %	2.4 %
Retail Margin \$'s	\$ 7,531	\$ 6,593	\$ 938
Margin %	46.7 %	45.5 %	1.2 %
Military Margin \$'s	\$ 1,411	\$ 2,042	\$ (631)
Margin %	26.6 %	37.5 %	(10.9) %
Total Margin \$'s	\$ 29,833	\$ 25,014	\$ 4,819
Margin %	38.4 %	37.2 %	1.2 %

Wholesale gross margin increased year over year due to stronger initial margins on some newer products, less discounting, selling fewer discontinued products and some increased efficiencies from our manufacturing facilities.

Retail gross margin increased as a higher percentage of our total retail sales were tied to our direct to consumer business which carries higher margins than our Lehigh business.

Military gross margin decreased year over year as 2019 margins included a \$581,000 one-time expense reimbursement to our Puerto Rico facility associated with the temporary closure as a result of Hurricane Maria in 2017. Excluding the one-time reimbursement, gross margins would have been 26.8%.

(\$ in thousands)	Three Months Ended September 30,		
	2020	2019	Inc./ (Dec.)
<b>OPERATING EXPENSES:</b>			
Operating Expenses	\$ 20,175	\$ 18,027	\$ 2,148
% of Net Sales	25.9 %	26.8 %	(0.9) %

The increase in operating expenses was primarily related to an increase in variable expenses tied to the sales increases in our wholesale and retail channels, as well as increased investments in our core brands to help initiate growth and expand within our respective markets. Operating expenses decreased as a % of sales as we were able to leverage our expenses because of the increase in sales.

(\$ in thousands)	Three Months Ended September 30,			
	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
<b>INCOME TAXES:</b>				
Income Tax Expense	\$ 1,992	\$ 1,414	\$ 578	40.9 %
Effective Tax Rate	<u>20.7 %</u>	<u>20.1 %</u>	<u>0.6 %</u>	

The effective tax rate increased slightly in the third quarter of 2020 as our current estimates expect our yearly effective tax rate to be 20.6%.

#### Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

(\$ in thousands)	Nine Months Ended September 30,			
	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
<b>NET SALES:</b>				
Wholesale	\$ 125,614	\$ 130,260	\$ (4,646)	(3.6)%
Retail	49,359	44,035	5,324	12.1
Military	14,718	20,772	(6,054)	(29.1)
Total Net Sales	<u>\$ 189,691</u>	<u>\$ 195,067</u>	<u>\$ (5,376)</u>	<u>(2.8)%</u>

Wholesale sales decreased due to some early softness from the pull forward from our retail partners on certain deliveries ahead of price increases that went into effect on January 1, 2020. We also experienced a decrease in wholesale sales due to COVID-19, as several states announced closures of all non-essential businesses and implemented stay-at-home directives in the first and second quarter of 2020, which cut back planned deliveries and replenishment orders.

Retail sales increased primarily due to our direct to consumer e-commerce business which we believe is attributable to both recent investments aimed at increasing traffic and conversion rates, as well as an increase in online shopping due to the COVID-19 pandemic.

Military sales decreased in part due to less scheduled orders in the first half of 2020, as well as due to a temporary closure of our manufacturing facility in Puerto Rico because of the COVID-19 pandemic.

(\$ in thousands)	Nine Months Ended September 30,			
	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
<b>GROSS MARGIN:</b>				
Wholesale Margin \$'s	\$ 42,908	\$ 44,157	\$ (1,249)	
Margin %	34.2 %	33.9 %	0.3 %	
Retail Margin \$'s	\$ 22,838	\$ 19,371	\$ 3,467	
Margin %	46.3 %	44.0 %	2.3 %	
Military Margin \$'s	\$ 2,868	\$ 5,906	\$ (3,038)	
Margin %	19.5 %	28.4 %	(8.9) %	
Total Margin \$'s	<u>\$ 68,614</u>	<u>\$ 69,434</u>	<u>\$ (820)</u>	
Margin %	<u>36.2 %</u>	<u>35.6 %</u>	<u>0.6 %</u>	

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Wholesale gross margin increased year over year due to stronger initial margins on some newer products, less discounting, selling less discontinued products and some increased efficiencies from our manufacturing facilities.

Retail gross margin increased as a higher percentage of our total retail sales were tied to our direct to consumer business which carries higher margins than our Lehigh business.

Military gross margin decreased year over year due to adjustments related to the overhead, payroll expenses and supplies incurred during the temporary closure of our manufacturing facilities due to the COVID-19 pandemic. These expenses were partially offset by the employee retention credit tied to the CARES Act of 2020. The net effect of these closure related expenses and employee retention credits was approximately \$654,000. Adjusting for the previously mentioned expenses and credits, our 2020 military margins were 23.9%. In 2019, margins included a \$581,000 one-time expense reimbursement to our Puerto Rico facility associated with the temporary closure as a result of Hurricane Maria in 2017. Excluding the one-time reimbursement, gross margins would have been 25.6%.

	Nine Months Ended September 30,			
(\$ in thousands)	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
<b>OPERATING EXPENSES:</b>				
Operating Expenses	\$ 54,344	\$ 54,004	\$ 340	0.6 %
% of Net Sales	<u>28.6 %</u>	<u>27.7 %</u>	<u>0.9 %</u>	

The increase in operating expenses as a percentage of sales was due to the increase in retail sales which carry higher variable expense costs and the decrease in military sales which do not carry the variable expenses that our wholesale and retail business do.

	Nine Months Ended September 30,			
(\$ in thousands)	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
<b>INCOME TAXES:</b>				
Income Tax Expense	\$ 2,917	\$ 3,212	\$ (295)	(9.2) %
Effective Tax Rate	<u>20.6 %</u>	<u>20.6 %</u>	<u>- %</u>	

The effective tax rate remained flat year over year.

## 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, dividend payments 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 \$7.7 million and \$5.8 million for the nine months ended September 30, 2020 and 2019, 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,	
	2020	2019
Operating activities	\$ 18.1	\$ 4.9
Investing activities	(8.6)	(6.1)
Financing activities	(5.1)	(2.6)
Net change in cash and cash equivalents	\$ 4.4	\$ (3.8)

*Operating Activities.* Cash provided by operating activities was primarily impacted by an increase in accounts payable and decreases in accounts receivable, partially offset by an increase in inventory for the nine months ended September 30, 2020. 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.

*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, 2020 and 2019.

*Financing Activities.* Cash used in financing activities was primarily related to the payments of dividends on our common stock and repurchases of common stock for the nine months ended September 30, 2020. Cash used in financing activities was primarily related to payments of dividends on our common stock for the nine months ended September 30, 2019.

### 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 2019 due to these factors. It is anticipated that any inflationary pressures during 2020 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 2019 Form 10-K.

## **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, 2019 (filed March 6, 2020) and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 (filed May 7, 2020) and June 30, 2020 (filed August 6, 2020), 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, 2019.

### 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, 2020, 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 has been no change in our internal control 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, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II -- OTHER INFORMATION

### ITEM 1A - RISK FACTORS

*The COVID-19 outbreak has had, and may continue to have, an adverse impact on our business, financial condition and results of operations.*

The World Health Organization declared the novel coronavirus (COVID-19), first identified in Wuhan, China, a pandemic in March 2020. Our business, financial condition and results of operations have been and are expected to continue to be adversely affected by the COVID-19 outbreak. The COVID-19 outbreak has affected nearly all regions of the world, and preventative measures taken to contain or mitigate the outbreak have caused, and are continuing to cause, business slowdown or shutdown in affected areas. This has and could continue to negatively affect the global economy, including reduced consumer spending and disruption of manufacturing and global supply chains. We cannot predict the degree to which our business, financial condition and results of operations will be affected by the COVID-19 pandemic, and the effects could be material. Potential impacts to our business, financial condition and results of operations include:

- ⌚ Disruption to our supplier and third party manufacturing partners and vendors and logistics providers, including through the effects of facility closures, reductions in operating hours, labor shortages, and changes in operating procedures;
- ⌚ Disruption to our own manufacturing, distribution, and general office facilities and operations, including through the effects of facility closures, reductions in operating hours, labor shortages, and changes in operating procedures, including for additional cleaning and disinfection procedures;
- ⌚ Closure or reduced operations of brick and mortar retail stores and reductions in customer traffic, which adversely affects our wholesale channel;
- ⌚ Lower performance of customers in our wholesale channel, which may result in reduction or cancellation of future orders;

- ① Closure or reduced operations of manufacturing and other facilities and businesses served by our Lehigh Custom Fit business, resulting in reductions in future orders, which adversely affects our retail channel; and
- ② Reductions in consumer spending due to macroeconomic conditions caused by the COVID-19 pandemic, including decreased disposable income and increased unemployment, which may result in decreased sales.

The further spread of COVID-19, and the requirements to take action to help limit the spread of the illness, will impact our ability to carry out our business as usual and may materially adversely impact global economic conditions, our business, results of operations and financial condition.

There have been no additional 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, 2019.

## 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, 2020 - July 31, 2020	-	-	\$ 6,500,013
August 1, 2020 - August 31, 2020	8,616	22.61	6,305,205
September 1, 2020 - September 30, 2020	32,534	24.89	5,495,434
Total	<u>41,150</u>	<u>\$ 24.56</u>	<u>\$ 5,495,434</u>

(1) The reported shares were repurchased pursuant to the Company's publicly announced stock repurchase authorizations.

(2) The number shown represents, as of the end of each period, the maximum number of shares (approximate dollar value) of Common Stock that may yet be purchased under publicly announced stock repurchase authorizations. The shares may be purchased, from time-to-time, depending on market conditions.

On February 28, 2020, the Company announced a \$7,500,000 share repurchase plan. The repurchase program terminates on February 28, 2021. This program is replacing the \$7,500,000 share repurchase plan that was announced on March 4, 2019 that expired on February 28, 2020.

**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.INS*	<u>XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.</u>
101.SCH*	<u>Inline XBRL Taxonomy Extension Schema Document</u>
101.CAL*	<u>Inline XBRL Taxonomy Extension Calculation Linkbase Document</u>
101.DEF*	<u>Inline XBRL Taxonomy Definition Linkbase Document</u>
101.LAB*	<u>Inline XBRL Taxonomy Extension Label Linkbase Document</u>
101.PRE*	<u>Inline XBRL Taxonomy Extension Presentation Linkbase Document</u>
104*	<u>Cover Page Interactive Data File, formatted in Inline XBRL and contained in Exhibit 101.</u>

\* 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.

Date: November 5, 2020

ROCKY BRANDS, INC.

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)

**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, 2020

/s/ Jason Brooks

Jason Brooks

Chief Executive Officer (Principal Executive Officer)

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**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, 2020

/s/ Thomas D. Robertson

Thomas D. Robertson  
Executive Vice President, Chief Financial  
Officer and Treasurer  
(Principal Financial and Accounting Officer)

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**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, 2020 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, 2020

/s/ Thomas D. Robertson

Thomas D. Robertson  
Executive Vice President, Chief Financial Officer and  
Treasurer  
(Principal Financial and Accounting Officer)  
November 5, 2020

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