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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 15, 2021

ROCKY BRANDS, INC.
(Exact name of registrant as specified in its charter)

Ohio	**001-34382**	**31-1364046**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

39 East Canal Street, Nelsonville, Ohio 45764
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (740) 753-1951

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

EXPLANATORY NOTE

On March 15, 2021, Rocky Brands, Inc. (the "Company") completed the previously announced acquisition of the performance and lifestyle footwear business of Honeywell International Inc. ("Hermes Business of Honeywell International Inc.") for the aggregate preliminary purchase price of $230 million, funded through a secured asset-backed credit facility, a senior secured term loan facility, and cash on hand.

On March 15, 2021, the Company filed a Current Report on Form 8-K (the "Original Report") with the Securities and Exchange Commission to report the completion of the Acquisition.

This Current Report on Form 8-K/A amends the Original Report to include (i) audited Combined Financial Statements as of and for the years ended December 31, 2019 and 2018 of the Hermes Business of Honeywell International Inc., (ii) unaudited Combined Balance Sheet as of September 30, 2020 and December 31, 2019 and the related unaudited Combined Statements of Operations, Equity and Cash Flows for the nine month periods ended September 30, 2020 and 2019 of the Hermes Business of Honeywell International, Inc. and (iii) unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2020 and unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2019 and for the nine months ended September 30, 2020 related to the Acquisition, as required by Items 9.01(a) and 9.01(b) of Form 8-K.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of the Business Acquired

(i) Audited Combined Financial Statements as of and for the years ended December 31, 2019 and 2018 of the Hermes Business of Honeywell International Inc. as Exhibit 99.2 to this Current Report on Form 8-K/A.

(ii) Unaudited Combined Balance Sheets as of September 30, 2020 and December 31, 2019 and the related unaudited Combined Statements of Operations, Equity and Cash Flows for the nine month periods ended September 30, 2020 and 2019 of the Hermes Business of Honeywell International, Inc. are attached as Exhibit 99.3 to this Current Report on Form 8-K/A.

(b) Pro Forma Financial Information

The following unaudited pro forma condensed combined financial information related to the Acquisition is attached as Exhibit 99.4 to this Current Report on Form 8-K/A.

(i) Unaudited Pro Forma Condensed Combined Balance sheet as of September 30, 2020.

(ii) Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2019 and for the nine months ended September 30, 2020.

(d) Exhibits

Exhibit 99.2	Hermes Business of Honeywell International Inc. Audited Combined Financial Statements as of and for the years ended December 31, 2019 and 2018
Exhibit 99.3	Hermes Business of Honeywell International Inc. Unaudited Combined Balance Sheets as of September 30, 2020 and December 31, 2019 and the related Combined Statements of Operations, Equity and Cash Flows for the nine month periods ended September 30, 2020 and 2019
Exhibit 99.4	Unaudited Pro Forma Condensed Combined Financial Information
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

Date: May 25, 2021

Rocky Brands, Inc.

/s/ Thomas D. Robertson

Thomas D. Robertson
Executive Vice President, Chief Financial Officer, and Treasurer

Exhibit 99.2

Hermes Business of Honeywell International, Inc.
Combined Financial Statements
For the Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

INDEX TO COMBINED FINANCIAL STATEMENTS

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Independent Auditors Report

To the Shareowners and Board of Directors of Honeywell International Inc. Charlotte, North Carolina

We have audited the accompanying combined financial statements of the Hermes Business, which consists of the Retail Footwear line of business, of Honeywell International, Inc. and subsidiaries (the “Company”), which comprise the combined balance sheets as of December 31, 2019, and 2018, and the related combined statements of operations, comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2019, and 2018, and the related notes to the combined financial statements.

Management’s Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to error or fraud.

Auditor’s Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by managements, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hermes Business of Honeywell International, Inc. and subsidiaries as of December 31, 2019, and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the combined financial statements, the accompanying combined financial statements have been derived from the separate records maintained by Honeywell International Inc. The combined financial statements also include expense allocations for certain corporate functions historically provided by Honeywell International Inc. These allocations may not be reflective of the actual expense that would have been incurred had the Company operated as a separate entity apart from Honeywell International Inc. A summary of transactions with related parties is included in Note 3 to the combined financial statements. Our opinion is not modified in respect of this matter.

Deloitte & Touche LLP

December 15, 2020

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF OPERATIONS
(Dollars in thousands)

	Twelve Months Ended December 31,	
	2019	2018
NET SALES	$ 203,028	$ 194,495
COST OF GOODS SOLD	139,824	142,143
GROSS MARGIN	63,204	52,352
OPERATING EXPENSES	53,236	49,540
INCOME BEFORE INCOME TAXES	9,968	2,812
INCOME TAX EXPENSE	4,258	2,403
NET INCOME	$ 5,710	$ 409

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Twelve Months Ended December 31, 2019	Twelve Months Ended December 31, 2018
NET INCOME	$ 5,710	$ 409
OTHER COMPREHENSIVE INCOME (LOSS), net of tax		
Foreign exchange translation adjustment	468	(1,014)
COMPREHENSIVE INCOME (LOSS)	$ 6,178	$ (605)

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2019	December 31, 2018
ASSETS:		
CURRENT ASSETS:		
Trade receivables – net	$ 45,975	$ 56,724
Inventories – net	54,397	48,271
Total current assets	100,372	104,995
PROPERTY, PLANT & EQUIPMENT – net	12,692	13,602
GOODWILL	34,980	34,980
OTHER IDENTIFIED INTANGIBLES – net	17,800	17,800
DEFERRED INCOME TAXES	27	37
OTHER ASSETS	1,893	1,632
TOTAL ASSETS	$ 167,764	$ 173,046
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	18,374	17,577
Accrued liabilities	9,017	9,781
Total current liabilities	27,391	27,358
DEFERRED INCOME TAXES	3,371	3,888
OTHER LIABILITIES	1,631	721
TOTAL LIABILITIES	32,393	31,967
EQUITY:		
Invested Equity	136,126	142,302
Accumulated other comprehensive (loss)	(755)	(1,223)
Total equity	135,371	141,079
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 167,764	$ 173,046

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Twelve Months Ended December 31, 2019	Twelve Months Ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,710	$ 409
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,009	1,940
Provision for allowance for doubtful accounts	990	708
Deferred income taxes	(507)	(105)
Stock compensation expense	558	280
Other	(97)	97
Change in assets and liabilities:		
Accounts receivable - net	10,045	(11,587)
Inventories	(6,006)	6,612
Other assets	(259)	(583)
Accounts payable	854	(6,656)
Accrued liabilities	(671)	3,084
Other liabilities	911	574
Net cash provided by (used in) operating activities	13,537	(5,227)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(1,272)	(2,569)
Net cash used in investing activities	(1,272)	(2,569)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in invested equity	(12,265)	7,796
Net cash (used in) provided by financing activities	(12,265)	7,796
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD	-	-
END OF PERIOD	$ -	$ -

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF EQUITY
(Dollars in thousands)

	Invested Equity	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE - December 31, 2017	$ 134,096	$ (209)	$ 133,887
TWELVE MONTHS ENDED DECEMBER 31, 2018			
Net income	409	-	409
Other comprehensive income (loss), net of tax	-	(1,014)	(1,014)
Change in Invested equity	7,797	-	7,797
BALANCE - December 31, 2018	$ 142,302	$ (1,223)	$ 141,079
TWELVE MONTHS ENDED DECEMBER 31, 2019			
Net income	5710	-	5,710
Other comprehensive income (loss), net of tax	-	468	468
Change in Invested equity	(11,886)	-	(11,886)
BALANCE - December 31, 2019	$ 136,126	$ (755)	$ 135,371

The Notes to Combined Financial Statements are an integral part of this statement.

Note 1. Organization, Operations and Basis of Presentation

Honeywell International Inc. ("Honeywell" or the "Parent") is contemplating a plan to divest its Hermes business ("Hermes", the "Business", the "Company", "we" or "our"), which consists of the Retail Footwear line of business. Hermes is a business within Honeywell's Safety and Productivity Solutions ("SPS") reporting segment.

Hermes is an industry-leading global supplier across various end markets offering leading performance and protection-based footwear for outdoor activities. Hermes consists of five brands; The Muck Boots Company, Xtrauf, Ranger, Neos, and Servus.

These Combined Financial Statements were derived from the consolidated financial statements and accounting records of Honeywell. These Combined Financial Statements reflect the combined historical results of operations, financial position and cash flows of Hermes as they were historically managed in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

All intracompany transactions have been eliminated as described in Note 3. Related Party Transactions with Honeywell.

Honeywell uses a centralized approach to cash management and financing of its operations. All of the Business's cash is transferred to Honeywell daily and Honeywell funds the Business's operating and investing activities as needed. This arrangement is not reflective of the manner in which the Business would have been able to finance its operations had it been a stand-alone business separate from Honeywell during the periods presented. Cash transfers to and from Honeywell's cash management accounts are reflected in the Combined Balance Sheet as Invested equity, and in the Combined Statements of Cash Flows as net financing activities.

The Combined Financial Statements include certain assets and liabilities that have historically been held at the Honeywell corporate level but are specifically identifiable or otherwise attributable to Hermes. The cash and cash equivalents held by Honeywell at the corporate level are not specifically identifiable to Hermes and therefore were not attributed for any of the periods presented. Honeywell's third-party debt and the related interest expense have not been allocated for any of the periods presented as Honeywell's borrowings were not directly attributable to Hermes. Honeywell provides certain services, such as legal, accounting, information technology, human resources and other infrastructure support, on behalf of the Business. The cost of these services has been allocated to the Business on the basis of the proportion of net sales. The Business and Honeywell consider these allocations to be a reasonable reflection of the benefits received by the Business. However, the financial information presented in these Combined Financial Statements may not reflect the combined financial position, operating results and cash flows of the Business had the Business been a separate stand-alone entity during the periods presented. Actual costs that would have been incurred if the Business had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure. We consider the basis on which the expenses have been allocated to be a reasonable reflection of the utilization of services provided to or the benefits received by the Business during the periods presented.

Note 2. Summary of Significant Accounting Policies

Principles of Combination—The Hermes Combined Financial Statements have been prepared on a stand-alone basis and include business units of Hermes.

Trade Receivables and Allowance for Doubtful Accounts—Trade accounts receivable are recorded at the invoiced amount as a result of transactions with customers. The Business maintains allowances for doubtful accounts for estimated losses as a result of customers' inability to make required payments. The Business estimates anticipated losses from doubtful accounts based on days past due as measured from the contractual due date and historical collection history. The Business also takes into consideration changes in economic conditions that may not be reflected in historical trends, for example customers in bankruptcy, liquidation or reorganization. Receivables are written-off against the allowance for doubtful accounts when they are determined uncollectible. Such determination includes analysis and consideration of the particular conditions of the account, including time intervals since last collection, customer performance against agreed upon payment plans, solvency of customer and any bankruptcy proceedings.

Inventories—Inventories are stated at the lower of cost or market, determined on a first-in, first-out basis, including direct material costs and direct and indirect manufacturing costs, or net realizable value. Reserves are maintained for obsolete, inactive and surplus items.

Property, Plant and Equipment—Property, plant and equipment are recorded at cost, including any asset retirement obligations, less accumulated depreciation. For financial reporting, the straight-line method of depreciation is used over the estimated useful lives of 10 to 50 years for buildings and improvements, and 3 to 15 years for machinery and equipment.

Leases—At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. The assessment is based on (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether the Company has the right to direct the use of the asset.

All significant lease arrangements are generally recognized at lease commencement. Operating lease right-of-use ("ROU") assets and lease liabilities are recognized at commencement. A ROU asset and corresponding lease liability are not recorded for leases with an initial term of 12 months or less (short term leases), and we recognize lease expense for these leases as incurred over the lease term.

ROU assets represent our right to use an underlying asset during the reasonably certain lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease payments may be fixed or variable, however, only fixed payments or in-substance fixed payments are included in determining the lease liability. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments are incurred. The operating lease ROU asset also includes any lease payments related to initial direct cost and prepayments and excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally accounted for separately.

The Company uses Honeywell's incremental borrowing rate, which is based on the information available at the lease commencement date, in determining the present value of the lease payments. In determining the borrowing rate, we consider the lease term, secured incremental borrowing rate, and for leases denominated in a currency different than U.S. dollar, the collateralized borrowing rate in the foreign currency using the U.S. dollar and foreign currency swap spread, when available.

Goodwill and Indefinite-Lived Intangible Assets—Goodwill and indefinite-lived intangible assets are subject to impairment testing annually as of March 31, and whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. This testing compares carrying values to fair values and, when necessary, the carrying value of these assets is impaired. For the years ended December 31, 2019 and 2018, there was no impairment.

Warranties and Guarantees—Expected warranty costs for products sold are recognized based on an estimate of the amount that eventually will be required to settle such obligations. These accruals are based on factors such as past experience, length of the warranty and various other considerations. Costs of product recalls, which may include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the recalled part, are accrued as part of our warranty accrual at the time an obligation becomes probable and can be reasonably estimated. These estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims

Sales Recognition—Sales are recognized when or as the Company transfers control of the promised products to its customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods.

The terms of a contract or the historical business practice can give rise to variable consideration due to, but not limited to, cash-based incentives, rebates, performance awards, or credits. We estimate variable consideration at the most likely amount we will receive from customers. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized for such a transaction will not occur, or when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

Research and Development—The Business conducts research and development ("R&D") activities, which consist primarily of the development of new products and product applications. R&D costs are charged to expense as incurred. Such costs are included in Cost of goods sold and amount to $70 thousand and $332 thousand for the years ended December 31, 2019 and 2018, respectively.

Stock-Based Compensation Plans—Certain Hermes employees participate in stock-based compensation plans sponsored by Parent. Awards granted under the plans primarily consist of stock options and restricted stock units ("RSUs") and are based on Parent's common shares and, as such, are reflected in Invested equity within the Combined Statements of Equity. The cost for such awards is measured at the grant date based on the fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (generally the vesting period of the equity award) and is included in Selling, general and administrative expenses in the Combined Statements of Operations.

Foreign Currency Translation—Assets and liabilities of operations outside the United States with a functional currency other than U.S. Dollars are translated into U.S. Dollars using year-end exchange rates. Sales, costs and expenses are translated at the average exchange rates in effect during the year. Foreign currency translation gains and losses are included as a component of Accumulated other comprehensive income (loss).

Income Taxes—The tax provision has been calculated as if the carve-out entity was operating on a stand-alone basis and filed separate tax returns in the jurisdiction in which it operates. The effects of tax adjustments and settlements from taxing authorities are presented in our Combined Financial Statements in the period to which they relate as if we were a separate filer. Our current obligations for taxes are settled with our Parent on an estimated basis and adjusted in later periods as appropriate. All income taxes due to or due from our Parent that have not settled or recovered by the end of the period are reflected in Invested equity within the Combined Financial Statements. We are subject to income tax in the United States (federal, state and local) as well as other jurisdictions in which we operate.

The provision for income tax expense is based on our income, the statutory tax rates and other provisions of the tax laws applicable to us in each of these various jurisdictions. These laws are complex, and their application to our facts is at times open to interpretation. The process of determining our combined income tax expense includes significant judgments and estimates, including judgments regarding the interpretation of those laws. Our provision for income taxes and our deferred tax assets and liabilities incorporate those judgments and estimates, and reflect management's best estimate of current and future income taxes to be paid.

Deferred tax assets and liabilities relate to temporary differences between the financial reporting and income tax bases of our assets and liabilities, as well as the impact of tax loss carryforwards or carrybacks. Deferred income tax expense or benefit represents the expected increase or decrease to future tax payments as these temporary differences reverse over time. Deferred tax assets are specific to the jurisdiction in which they arise, and are recognized subject to management's judgment that realization of those assets is "more likely than not." In making decisions regarding our ability to realize tax assets, we evaluate all positive and negative evidence, including projected future taxable income, taxable income in carryback periods, expected reversal of deferred tax liabilities, and the implementation of available tax planning strategies.

Significant judgment is required in evaluating tax positions. We establish additional reserves for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that do not meet the minimum recognition threshold. The approach for evaluating certain and uncertain tax positions is defined by the authoritative guidance which determines when a tax position is more likely than not to be sustained upon examination by the applicable taxing authority. In the normal course of business, the Hermes business is examined by various federal, state and foreign tax authorities. We regularly assess potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a change in estimate become known.

The tax provision has been calculated as if the carve-out entity was operating on a stand-alone basis and filed separate tax returns in the jurisdiction in which it operates. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the actual tax balances prior to or subsequent to the carve-out.

Use of Estimates—The preparation of the Business's Combined Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the Combined Financial Statements and related disclosures in the accompanying Notes. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed, and the effects of changes are reflected in the Combined Financial Statements in the period they are determined to be necessary.

Recent Accounting Pronouncements—We consider the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our combined results of operations, financial position and cash flows (combined financial statements).

In December 2019, the FASB issued an accounting standard update to simplify the accounting for income taxes. The standard's amendments include changes in various subtopics of accounting for income taxes including, but not limited to, accounting for "hybrid" tax regimes, tax basis step-up in goodwill obtained in a transaction that is not a business combination, intraperiod tax allocation exception to incremental approach, ownership changes in investments, interim-period accounting for enacted changes in tax law, and year-to date loss limitation in interim-period tax accounting. The guidance is effective for fiscal years beginning after December 15, 2020 with early adoption permitted, including the interim periods within those years. We are currently evaluating impacts of these amendments on our Combined Financial Statements, and related notes to the Combined Financial Statements. We do not expect the adoption of this standard to have a material impact on the Combined Financial Statements.

In June 2016, the FASB issued accounting standard that requires companies to utilize an impairment model (current expected credit loss, or CECL) for most financial assets measured at amortized cost and certain other financial instruments, which include, but are not limited to, trade and other receivables. This accounting standard will replace the incurred loss model under current GAAP with a model that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate those losses. Effective January 1, 2020, the Company adopted this standard. The adoption of this standard does not have a material impact on our Combined Financial Statements

Note 3. Related Party Transactions with Honeywell

The Combined Financial Statements have been prepared on a stand-alone basis and are derived from the Consolidated Financial Statements and accounting records of Honeywell.

Honeywell provided certain services, such as legal, accounting, information technology, human resources and other infrastructure support, on behalf of the Business. The cost of these services has been allocated to the Business on the basis of the proportion of net sales. The Business and Honeywell consider the allocations to be a reasonable reflection of the benefits received by the Business. During the years ended December 31, 2019 and December 31, 2018, Hermes was allocated $13,744 thousand and $11,167 thousand, respectively, of general corporate expenses incurred by Honeywell and such amounts are included within Selling, general and administrative expenses in the Combined Statements of Operations. As certain expenses reflected in the Combined Financial Statements include allocations of corporate expenses from Honeywell, these statements could differ from those that would have been prepared had Hermes operated on a stand-alone basis.

(Dollars in thousands, unless otherwise noted)

Honeywell uses a centralized approach for the purpose of cash management and financing of its operations. The Business's cash is transferred to Honeywell daily and Honeywell funds the Business's operating and investing activities as needed. The Company operates a centralized non-interest-bearing cash pool in the U.S. and regional interest-bearing cash pools outside of the U.S. The total net effect of the settlement of these intercompany transactions is reflected in the Combined Statements of Cash Flows as a financing activity and in the Combined Balance Sheets as Invested equity.

Net transfers to and from Honeywell are included within Invested equity on the Combined Statements of Equity. The components of the net transfers to and from Honeywell as of December 31, 2019 and 2018 are as follows:

	Years Ended December 31,	
	2019	2018
General financing activities	$ (26,188)	$ (3,650)
Corporate allocations	13,744	11,167
Stock compensation expense	558	280
Net (decrease) increase in invested equity	$ (11,886)	$ 7,797

Note 4. Income Taxes

Income before taxes

	Years Ended December 31,	
	2019	2018
U.S.	$ 13,747	$ 7,015
Non-U.S.	(3,779)	(4,203)
	$ 9,968	$ 2,812

Tax expense (benefit)

	2019	2018
Current:		
U.S. Federal	$ 3,219	$ 1,437
U.S. State	613	280
Non-U.S.	933	791
	$ 4,765	$ 2,508
Deferred:		
U.S. State	$ (426)	$ (18)
U.S. Federal	(90)	(64)
Non-U.S.	9	(23)
	$ (507)	$ (105)
Total	$ 4,258	$ 2,403

(Dollars in thousands, unless otherwise noted)

	Years Ended December 31, 2019	2018
The U.S. federal statutory income tax rate is reconciled to the effective income tax rate is as follows:		
U.S. federal statutory income tax rate	21.00%	21.00%
Taxes on non-U.S. earnings	1.04	1.35
U.S. state income taxes	4.22	7.72
Foreign valuation allowances	16.79	57.73
Uncertain tax positions	(0.21)	(0.64)
Non-deductible expenses	0.02	0.44
All other items - net	(0.15)	(2.14)
	42.71%	85.46%

The effective tax rate decreased by 42.75 percentage points in 2019 compared to 2018. The decrease was primarily attributable to the valuation allowances recorded on foreign losses and increased U.S income creating a larger base of pretax income. The Company's non- U.S. effective tax rate in 2019 was (24.94)%, a decrease of approximately 6.67 percentage points compared to 2018. The year-over-year decrease in the non-U.S. effective tax rate was primarily driven by the mix of foreign earnings.

Deferred tax assets (liabilities)

The tax effects of temporary differences and tax carryforwards which give rise to future income tax benefits and payables are as follows:

	2019	2018
Deferred tax assets:		
Other accruals and reserves	$ 875	$ 556
Net operating and capital losses	3,221	1,521
Inventory	617	424
Other accruals and reserves	105	101
Gross deferred tax assets	4,818	2,602
Valuation allowances	(3,327)	(1,623)
Total deferred tax assets	1,491	979
Deferred tax liabilities:		
Property, plan and equipment	147	351
Intangible assets	4,275	4,282
Other	413	197
Total deferred tax liabilities	4,835	4,830
Net deferred tax liability	$ 3,344	$ 3,851

Our gross deferred tax assets include $3,354 thousand related to non-U.S. operations comprised principally of net operating losses carryforwards (mainly in Canada and United Kingdom) and deductible temporary differences. We maintain a valuation allowance of $3,327 thousand against a portion of the non-U.S. gross deferred tax assets. The change in the valuation allowance resulted in increases of $1,675 thousand and $1,623 thousand to tax expense in 2019 and 2018, respectively. In the event we determine that we will not be able to realize our net deferred tax assets in the future, we will reduce such amounts through an increase to tax expense in the period such determination is made. Conversely, if we determine that we will be able to realize net deferred tax assets in excess of the carrying amounts, we will decrease the recorded valuation allowance through a reduction to Tax expense in the period that such determination is made.

As of December 31, 2019 and 2018 our net operating loss, capital loss and tax credit carryforwards were as follows:

	Expiration Period	December 31, 2019	2018
Taxing Authority Jurisdiction:			
Non-U.S.	Indefinite	$ 8,568	$ 5,002
Non-U.S.	2038-2039	6,542	2,499
		$ 15,110	$ 7,501

Many jurisdictions impose limitations on the timing and utilization of net operating loss carryforwards. In those instances where the net operating loss or tax credit carryforward will not be utilized in the carryforward period due to the limitation, the deferred tax asset and amount of the carryforward have been reduced.

(Dollars in thousands, unless otherwise noted)

	2019	2018
Change in unrecognized tax benefits		
Balance at beginning of year	$ 106	$ 128
Gross increases related to current period tax positions	8	9
Gross increases related to prior periods tax positions	(29)	(30)
Foreign currency translation	-	(1)
Balance at end of year	$ 85	$ 106

As of December 31, 2019 and 2018 there were $85 thousand and $106 thousand of unrecognized tax benefits, respectively, that if recognized would be recorded as a component of income tax expense.

The following table summarizes tax years that remain subject to examination by major tax jurisdictions as of December 31, 2019:

	Open Tax Years Based on Originally Filed Returns	
Taxing Authority Jurisdiction:	Examination in Progress	Examination Not Yet Initiated
U.S. Federal	2015-2016	2017-2019
U.S. State	2011-2017	2012-2018
Australia	N/A	2016-2019
Canada	2015-2017	2018-2019
China	2009-2018	2019
France	N/A	2017-2019
United Kingdom	2013-2017	2018-2019

Based on the outcome of these examinations, or as a result of the expiration of statute of limitations for specific jurisdictions, it is reasonably possible that certain unrecognized tax benefits for tax positions taken on previously filed tax returns will materially change from those recorded as liabilities in our Combined Financial Statements. In addition, the outcome of these examinations may impact the valuation of certain deferred tax assets (such as net operating losses) in future periods.

Unrecognized tax benefits for examinations in progress were $0 thousand and $29 thousand as of December 31, 2019, and December 31, 2018, respectively. Estimated interest and penalties related to the underpayment of income taxes are classified as a component of Tax expense in the Combined Statement of Operations and totaled $0 thousand of expense and $2 thousand of expense for the years ended December 31, 2019 and December 31, 2018, respectively. Accrued interest and penalties were $22 thousand and $23 thousand as of December 31, 2019 and 2018, respectively.

Consistent with the Honeywell assertion of indefinite reinvestment, Hermes does not assert permanent reinvestment of foreign earnings. For the years ending December 31, 2018 and December 31, 2019 there are no foreign earnings available to repatriate. The U.S. imposes a tax on global intangible low taxed income (“GILTI”) that is earned by certain foreign affiliates owned by a U.S. shareholder. GILTI is generally intended to impose tax on earnings of a foreign corporation that are deemed to exceed a certain threshold return relative to the underlying business investment. The Company has made a policy election to treat future taxes related to GILTI as a current period expense in the reporting period in which the tax is incurred.

Note 5. Revenue Recognition and Contracts with Customers

Adoption

On January 1, 2018, the Company adopted new guidance on revenue from contracts with customers using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. As a result of adopting the new guidance, the Company determined there are no material impacts on the Combined Financial Statements as the Company’s previous revenue recognition methodology was consistent with the new standard.

(Dollars in thousands, unless otherwise noted)

Disaggregated Revenue

We recognize our revenue through the sale of our products across various regions.

	December 31, 2019	December 31, 2018
Americas	$ 193,901	$ 183,224
EMEA(1)	8,886	10,753
APAC(2)	241	518
	$ 203,028	$ 194,495

1EMEA represents Europe, the Middle East, and Africa
2APAC represents Asia-Pacific, Australia, and China

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good to the customer, and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Each product sold to a customer typically represents a distinct performance obligation.

Substantially all of our revenue is recognized at a point in time when performance obligations are satisfied. Performance obligations are supported by contracts with customers, providing a framework for the nature of the distinct goods. The timing of satisfying the performance obligation is typically indicated by the terms of the contract. All performance obligations are expected to be satisfied within one year.

The timing of satisfaction of our performance obligations does not significantly vary from the typical timing of payment. For some contracts, we may be entitled to receive an advance payment.

We have applied the practical expedient to not disclose the value of remaining performance obligations for (i) contracts with an original expected term of one year or less or (ii) contracts for which we recognize revenue in proportion to the amount we have the right to invoice for services performed.

Note 6. Accounts Receivables—Net

	December 31, 2019	December 31, 2018
Accounts receivable	$ 46,297	$ 57,455
Less - allowance for doubtful accounts	(322)	(731)
Total	$ 45,975	$ 56,724

Note 7. Inventories

	December 31, 2019	December 31, 2018
Raw materials	$ 2,580	$ 1,737
Finished goods	51,817	46,534
Total	$ 54,397	$ 48,271

(Dollars in thousands, unless otherwise noted)

Note 8. Property, Plant and Equipment—Net

	December 31, 2019	December 31, 2018
Machinery and equipment	$ 16,197	$ 15,301
Buildings and improvements	9,680	9,752
Land and improvements	287	291
Others	1,593	1,316
Total	27,757	26,660
Less - accumulated depreciation	(15,065)	(13,058)
Net Fixed Assets	$ 12,692	$ 13,602

Depreciation expense was $2,009 thousand and $1,940 thousand in 2019 and 2018, respectively.

Note 9. Other Intangible Assets—Net

Other intangible assets, net consist of definite and indefinite lived trademark intangibles. For the years ended December 31, 2019 and 2018, there was $100 thousand in gross Trademark which was fully amortized and $17,800 thousand in indefinite life intangible trademark assets.

Note 10. Accrued Liabilities

	December 31, 2019	December 31, 2018
Customer rebate reserve	$ 4,528	$ 2,998
Compensation, benefit and other employee related	1,055	1,788
Operating lease liability	670	-
Accrued freight	621	4,054
Other	2,143	941
Total	$ 9,017	$ 9,781

Note 11. Leases

Adoption

Effective January 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective method of applying the new standard at the adoption date. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard. This allowed us to carry forward the historical lease classification. Adoption of this standard resulted in the recording of net operating lease right-of-use (ROU) assets and corresponding operating lease liabilities of $1,722 thousand. Financial positions for reporting periods beginning on or after January 1, 2019 are presented under the new guidance, while prior periods amounts are not adjusted and continue to be reported in accordance with previous guidance.

Our operating lease portfolio includes corporate offices and manufacturing sites. Our leases have remaining lease terms of 1 year to 3 years, some of which include options to extend the leases for 5 years or more. Operating lease ROU assets are presented within Other assets. The current portion of operating lease liabilities are presented within Accrued liabilities, and the non-current portion of operating lease liabilities are presented within Other liabilities on the Combined Balance Sheet.

(Dollars in thousands, unless otherwise noted)

None of our real estate leases are subject to annual changes in the Consumer Price Index (CPI).

	At December 31, 2019
Operating lease cost	$ 546
Total lease cost	$ 546

Supplemental cash flow information related to leases was as follows:

	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 689
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	$ -

Supplemental balance sheet information related to leases was as follows:

	December 31, 2019	Financial Statement Line Item
Assets:		
Operating ROU Assets	$ 1,234	Other Assets
Liabilities:		
Current		
Operating	$ 670	Accrued liabilities
Noncurrent		
Operating	1,084	Other liabilities
Total leased liabilities	$ 1,754	

	December 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	3
Weighted-average discount rate	
Operating leases	3.0%

As of December 31, 2019, maturities of lease liabilities were as follows:

	Operating Leases
2020	$ 706
2021	608
2022	508
2023	-
2024	-
Thereafter	-
Total lease payments	1,822
Less: Interest	(68)
Present value of lease liabilities	$ 1,754

(Dollars in thousands, unless otherwise noted)

Under the previous lease accounting standard, future minimum lease payments for operating leases having initial or remaining non-cancellable lease terms in excess of one year would have been as follows:

	At December 31, 2018
2019	$ 689
2020	706
2021	608
2022	508
2023	-
Thereafter	-
	$ 2,511

Note 12. Financial Instruments and Fair Value Measures

Credit and Market Risk—We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

Foreign Currency Risk Management—We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade. Our primary objective is to preserve the U.S. Dollar value of foreign currency denominated cash flows and earnings.

The carrying value of accounts receivable and account payables contained in the Combined Balance Sheet approximates fair value.

Note 13. Stock-Based Compensation Plans

Honeywell maintains stock-based compensation plans for the benefit of its officers, directors and employees. The following disclosures represent stock-based compensation expenses attributable to Hermes based on the awards and terms previously granted under the Parent's stock-based compensation plans to Hermes employees and an allocation of Parent's corporate and shared functional employee stock-based compensation expenses. Accordingly, the amounts presented are not necessarily indicative of future awards and do not necessarily reflect the results that Hermes would have experienced as an independent company for the periods presented.

Stock-Based Compensation Expense

Stock-based compensation expense recognized in the Combined Statements of Operations approximated $558 thousand and $280 thousand for the years ended December 31, 2019 and 2018, respectively, of which $110 thousand and $45 thousand, respectively, are specifically identifiable to Hermes employees, and $448 thousand and $235 thousand, respectively, are attributable to shared employees not specifically identifiable to Hermes, allocated based on revenues.

Note 14. Commitments and Contingencies

Other Matters

We are subject to other lawsuits, investigations and disputes arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability, prior acquisitions and divestitures, employee benefit plans, intellectual property, and environmental, health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of possible losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. To date, no such matters are material to the Combined Statements of Operations.

Note 15. Subsequent Events

The Business evaluated subsequent events for recognition or disclosure through December 15, 2020, the date the Combined Financial Statements were available to be issued. No significant subsequent events were noted.

Exhibit 99.3

Hermes Business of Honeywell International, Inc.
Unaudited Combined Financial Statements
For the Nine Months Ended September 30, 2020 and 2019

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2020	2019
NET SALES	$ 128,343	$ 132,962
COST OF GOODS SOLD	89,447	97,042
GROSS MARGIN	38,896	35,920
OPERATING EXPENSES	37,691	38,211
INCOME BEFORE INCOME TAXES	1,205	(2,291)
TAX (INCOME) EXPENSE	(259)	795
NET INCOME	$ 1,464	$ (3,086)

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in Thousands)

	Nine Months Ended September 30,	
	2020	2019
NET INCOME	$ 1,464	$ (3,086)
OTHER COMPREHENSIVE INCOME (LOSS), net of tax		
Foreign exchange translation adjustment	(83)	(80)
COMPREHENSIVE INCOME (LOSS)	$ 1,381	$ (3,166)

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS:		
CURRENT ASSETS:		
Trade receivables – net	$ 44,011	$ 45,975
Inventories – net	52,598	54,397
Total current assets	96,609	100,372
PROPERTY, PLANT & EQUIPMENT – net	11,621	12,692
GOODWILL	34,980	34,980
OTHER IDENTIFIED INTANGIBLES – net	17,800	17,800
DEFERRED INCOME TAXES	427	27
OTHER ASSETS	1,504	1,893
TOTAL ASSETS	$ 162,941	$ 167,764
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	24,712	18,374
Accrued liabilities	8,078	9,017
Total current liabilities	32,790	27,391
DEFERRED INCOME TAXES	3,013	3,371
OTHER LIABILITIES	1,054	1,631
TOTAL LIABILITIES	36,857	32,393
EQUITY:		
Invested Equity	126,922	136,126
Accumulated other comprehensive (loss)	(838)	(755)
Total equity	126,084	135,371
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 162,941	$ 167,764

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,464	$ (3,086)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,815	1,375
Provision for allowance for doubtful accounts	278	1,119
Deferred income taxes	(740)	(390)
Stock compensation expense	468	275
Other	-	(80)
Change in assets and liabilities:		
Accounts receivable - net	1,743	12,686
Inventories	1,731	(15,941)
Other assets	389	(386)
Accounts payable	6,288	11,085
Accrued liabilities	(932)	(1,171)
Other liabilities	(578)	924
Net cash provided by (used in) operating activities	11,926	6,410
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(484)	(864)
Net cash used in investing activities	(484)	(864)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in invested equity	(11,442)	(5,546)
Net cash (used in) provided by financing activities	(11,442)	(5,546)
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD	-	-
END OF PERIOD	$ -	$ -

The Notes to Combined Financial Statements are an integral part of this statement.

HERMES BUSINESS OF HONEYWELL INTERNATIONAL INC.
COMBINED STATEMENTS OF EQUITY
(Unaudited)
(Dollars in thousands)

	Invested Equity	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE - December 31, 2018	$ 142,302	$ (1,223)	$ 141,079
NINE MONTHS ENDED SEPTEMBER 30, 2019			
Net income	(3,086)	-	(3,086)
Other comprehensive income (loss), net of tax	-	(80)	(80)
Change in Invested equity	(5,640)	-	(5,640)
BALANCE - September 30, 2019	$ 133,576	$ (1,303)	$ 132,273
BALANCE - December 31, 2019	$ 136,126	$ (755)	$ 135,371
NINE MONTHS ENDED SEPTEMBER 30, 2020			
Net income	1,464	-	1,464
Other comprehensive income (loss), net of tax	-	(83)	(83)
Change in Invested equity	(10,668)	-	(10,668)
BALANCE - September 30, 2020	$ 126,922	$ (838)	$ 126,084

The Notes to Combined Financial Statements are an integral part of this statement.

Note 1. Organization, Operations and Basis of Presentation

Honeywell International Inc. (“Honeywell” or the “Parent”) is contemplating a plan to divest its Hermes business (“Hermes”, the “Business”, the “Company”, “we” or “our”), which consists of the Retail Footwear line of business. Hermes is a business within Honeywell’s Safety and Productivity Solutions (“SPS”) reporting segment.

Hermes is an industry-leading global supplier across various end markets offering leading performance and protection-based footwear for outdoor activities. Hermes consists of five brands; The Muck Boots Company, Xtratuf, Ranger, Neos, and Servus.

These Combined Financial Statements were derived from the consolidated financial statements and accounting records of Honeywell. These Combined Financial Statements reflect the combined historical results of operations, financial position and cash flows of Hermes as they were historically managed in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

All intracompany transactions have been eliminated as described in Note 3. Related Party Transactions with Honeywell.

Honeywell uses a centralized approach to cash management and financing of its operations. All of the Business’s cash is transferred to Honeywell daily and Honeywell funds the Business’s operating and investing activities as needed. This arrangement is not reflective of the manner in which the Business would have been able to finance its operations had it been a stand-alone business separate from Honeywell during the periods presented. Cash transfers to and from Honeywell’s cash management accounts are reflected in the Combined Balance Sheet as Invested equity, and in the Combined Statements of Cash Flows as net financing activities.

The Combined Financial Statements include certain assets and liabilities that have historically been held at the Honeywell corporate level but are specifically identifiable or otherwise attributable to Hermes. The cash and cash equivalents held by Honeywell at the corporate level are not specifically identifiable to Hermes and therefore were not attributed for any of the periods presented. Honeywell’s third-party debt and the related interest expense have not been allocated for any of the periods presented as Honeywell’s borrowings were not directly attributable to Hermes. Honeywell provides certain services, such as legal, accounting, information technology, human resources and other infrastructure support, on behalf of the Business. The cost of these services has been allocated to the Business on the basis of the proportion of net sales. The Business and Honeywell consider these allocations to be a reasonable reflection of the benefits received by the Business. However, the financial information presented in these Combined Financial Statements may not reflect the combined financial position, operating results and cash flows of the Business had the Business been a separate stand-alone entity during the periods presented. Actual costs that would have been incurred if the Business had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure. We consider the basis on which the expenses have been allocated to be a reasonable reflection of the utilization of services provided to or the benefits received by the Business during the periods presented.

Note 2. Summary of Significant Accounting Policies

Principles of Combination—The Hermes Combined Financial Statements have been prepared on a stand-alone basis and include business units of Hermes.

Trade Receivables and Allowance for Doubtful Accounts—Trade accounts receivable are recorded at the invoiced amount as a result of transactions with customers. The Business maintains allowances for doubtful accounts for estimated losses as a result of customers' inability to make required payments. The Business estimates anticipated losses from doubtful accounts based on days past due as measured from the contractual due date and historical collection history. The Business also takes into consideration changes in economic conditions that may not be reflected in historical trends, for example customers in bankruptcy, liquidation or reorganization. Receivables are written-off against the allowance for doubtful accounts when they are determined uncollectible. Such determination includes analysis and consideration of the particular conditions of the account, including time intervals since last collection, customer performance against agreed upon payment plans, solvency of customer and any bankruptcy proceedings.

Inventories—Inventories are stated at the lower of cost or market, determined on a first-in, first-out basis, including direct material costs and direct and indirect manufacturing costs, or net realizable value. Reserves are maintained for obsolete, inactive and surplus items.

Property, Plant and Equipment—Property, plant and equipment are recorded at cost, including any asset retirement obligations, less accumulated depreciation. For financial reporting, the straight-line method of depreciation is used over the estimated useful lives of 10 to 50 years for buildings and improvements, and 3 to 15 years for machinery and equipment.

Leases—At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. The assessment is based on (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether the Company has the right to direct the use of the asset.

All significant lease arrangements are generally recognized at lease commencement. Operating lease right-of-use ("ROU") assets and lease liabilities are recognized at commencement. A ROU asset and corresponding lease liability are not recorded for leases with an initial term of 12 months or less (short term leases), and we recognize lease expense for these leases as incurred over the lease term.

ROU assets represent our right to use an underlying asset during the reasonably certain lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease payments may be fixed or variable, however, only fixed payments or in-substance fixed payments are included in determining the lease liability. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments are incurred. The operating lease ROU asset also includes any lease payments related to initial direct cost and prepayments and excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally accounted for separately.

The Company uses Honeywell's incremental borrowing rate, which is based on the information available at the lease commencement date, in determining the present value of the lease payments. In determining the borrowing rate, we consider the lease term, secured incremental borrowing rate, and for leases denominated in a currency different than U.S. dollar, the collateralized borrowing rate in the foreign currency using the U.S. dollar and foreign currency swap spread, when available.

Goodwill and Indefinite-Lived Intangible Assets—Goodwill and indefinite-lived intangible assets are subject to impairment testing annually as of March 31, and whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. This testing compares carrying values to fair values and, when necessary, the carrying value of these assets is impaired. For the nine months ended September 30, 2020 and December 31, 2020, there was no impairment.

Warranties and Guarantees—Expected warranty costs for products sold are recognized based on an estimate of the amount that eventually will be required to settle such obligations. These accruals are based on factors such as past experience, length of the warranty and various other considerations. Costs of product recalls, which may include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the recalled part, are accrued as part of our warranty accrual at the time an obligation becomes probable and can be reasonably estimated. These estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims

Sales Recognition—Sales are recognized when or as the Company transfers control of the promised products to its customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods.

The terms of a contract or the historical business practice can give rise to variable consideration due to, but not limited to, cash-based incentives, rebates, performance awards, or credits. We estimate variable consideration at the most likely amount we will receive from customers. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized for such a transaction will not occur, or when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

Research and Development—The Business conducts research and development ("R&D") activities, which consist primarily of the development of new products and product applications. R&D costs are charged to expense as incurred. Such costs are included in Cost of goods sold and amount to $74 thousand and $104 thousand for the nine months ended September 30, 2020 and 2019, respectively.

Stock-Based Compensation Plans—Certain Hermes employees participate in stock-based compensation plans sponsored by Parent. Awards granted under the plans primarily consist of stock options and restricted stock units ("RSUs") and are based on Parent's common shares and, as such, are reflected in Invested equity within the Combined Statements of Equity. The cost for such awards is measured at the grant date based on the fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (generally the vesting period of the equity award) and is included in Selling, general and administrative expenses in the Combined Statements of Operations.

Foreign Currency Translation—Assets and liabilities of operations outside the United States with a functional currency other than U.S. Dollars are translated into U.S. Dollars using year-end exchange rates. Sales, costs and expenses are translated at the average exchange rates in effect during the year. Foreign currency translation gains and losses are included as a component of Accumulated other comprehensive income (loss).

Income Taxes—The tax provision is presented on a separate company basis as if we were a separate filer. The effects of tax adjustments and settlements from taxing authorities are presented in our Combined Financial Statements in the period to which they relate as if we were a separate filer. Our current obligations for taxes are settled with our Parent on an estimated basis and adjusted in later periods as appropriate. All income taxes due to or due from our Parent that have not settled or recovered by the end of the period are reflected in Invested equity within the Combined Financial Statements. We are subject to income tax in the United States (federal, state and local) as well as other jurisdictions in which we operate.

The provision for income tax expense is based on our income, the statutory tax rates and other provisions of the tax laws applicable to us in each of these various jurisdictions. These laws are complex, and their application to our facts is at times open to interpretation. The process of determining our combined income tax expense includes significant judgments and estimates, including judgments regarding the interpretation of those laws. Our provision for income taxes and our deferred tax assets and liabilities incorporate those judgments and estimates, and reflect management's best estimate of current and future income taxes to be paid.

Deferred tax assets and liabilities relate to temporary differences between the financial reporting and income tax bases of our assets and liabilities, as well as the impact of tax loss carryforwards or carrybacks. Deferred income tax expense or benefit represents the expected increase or decrease to future tax payments as these temporary differences reverse over time. Deferred tax assets are specific to the jurisdiction in which they arise, and are recognized subject to management's judgment that realization of those assets is "more likely than not." In making decisions regarding our ability to realize tax assets, we evaluate all positive and negative evidence, including projected future taxable income, taxable income in carryback periods, expected reversal of deferred tax liabilities, and the implementation of available tax planning strategies.

Significant judgment is required in evaluating tax positions. We establish additional reserves for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that do not meet the minimum recognition threshold. The approach for evaluating certain and uncertain tax positions is defined by the authoritative guidance which determines when a tax position is more likely than not to be sustained upon examination by the applicable taxing authority. In the normal course of business, the Hermes business is examined by various federal, state and foreign tax authorities. We regularly assess potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a change in estimate become known.

The tax provision has been calculated as if the carve-out entity was operating on a stand-alone basis and filed separate tax returns in the jurisdiction in which it operates. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the actual tax balances prior to or subsequent to the carve-out.

Use of Estimates—The preparation of the Business's Combined Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the Combined Financial Statements and related disclosures in the accompanying Notes. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of changes are reflected in the Combined Financial Statements in the period they are determined to be necessary.

Recent Accounting Pronouncements—We consider the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our combined results of operations, financial position and cash flows (combined financial statements).

In December 2019, the FASB issued accounting standard update to simplify the accounting for income taxes. The standard's amendments include changes in various subtopics of accounting for income taxes including, but not limited to, accounting for "hybrid" tax regimes, tax basis step-up in goodwill obtained in a transaction that is not a business combination, intraperiod tax allocation exception to incremental approach, ownership changes in investments, interim-period accounting for enacted changes in tax law, and year-to date loss limitation in interim-period tax accounting. The guidance is effective for fiscal years beginning after December 15, 2020 with early adoption permitted, including the interim periods within those years. We are currently evaluating impacts of these amendments on our Combined Financial Statements, and related notes to the Combined Financial Statements. We do not expect the adoption of this standard to have a material impact on the Combined Financial Statements.

In June 2016, the FASB issued accounting standard that requires companies to utilize an impairment model (current expected credit loss, or CECL) for most financial assets measured at amortized cost and certain other financial instruments, which include, but are not limited to, trade and other receivables. This accounting standard will replace the incurred loss model under current GAAP with a model that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate those losses. Effective January 1, 2020, the Company adopted this standard. The adoption of this standard does not have a material impact on our Combined Financial Statements

Note 3. Related Party Transactions with Honeywell

The Combined Financial Statements have been prepared on a stand-alone basis and are derived from the Consolidated Financial Statements and accounting records of Honeywell.

Honeywell provided certain services, such as legal, accounting, information technology, human resources and other infrastructure support, on behalf of the Business. The cost of these services has been allocated to the Business on the basis of the proportion of net sales. The Business and Honeywell consider the allocations to be a reasonable reflection of the benefits received by the Business. During the nine months ended September 30, 2020 and 2,019, Hermes was allocated $9,991 thousand, $9,215 thousand, respectively, of general corporate expenses incurred by Honeywell and such amounts are included within Selling, general and administrative expenses in the Combined Statements of Operations. As certain expenses reflected in the Combined Financial Statements include allocations of corporate expenses from Honeywell, these statements could differ from those that would have been prepared had Hermes operated on a stand-alone basis.

(Dollars in thousands, unless otherwise noted)

Honeywell uses a centralized approach for the purpose of cash management and financing of its operations. The Business's cash is transferred to Honeywell daily and Honeywell funds the Business's operating and investing activities as needed. The Company operates a centralized non-interest-bearing cash pool in the U.S. and regional interest-bearing cash pools outside of the U.S. The total net effect of the settlement of these intercompany transactions is reflected in the Combined Statements of Cash Flows as a financing activity and in the Combined Balance Sheets as Invested equity.

Net transfers to and from Honeywell are included within Invested equity on the Combined Statements of Equity. The components of the net transfers to and from Honeywell as of nine months ended September 30, 2020 and 2019 are as follows:

	Nine Months Ended September 30, 2020	2019
General financing activities	$ (21,093)	$ (15,300)
Corporate allocations	9,991	9,215
Stock compensation expense	434	445
Net (decrease) increase in invested equity	$ (10,668)	$ (5,640)

Note 4. Income Taxes

The effective tax rate was lower than the U.S. federal statutory rate of 21% and increased during 2020 compared to 2019 primarily due to the jurisdictional mix of earnings and valuation allowances on foreign losses.

(Dollars in thousands, unless otherwise noted)

Note 5. Revenue Recognition and Contracts with Customers

Adoption

On January 1, 2019, the Company adopted new guidance on revenue from contracts with customers using the modified retrospective method applied to contracts that were not completed as of January 1, 2019. As a result of adopting the new guidance, the Company determined there are no material impacts on the Combined Financial Statements as the Company's previous revenue recognition methodology was consistent with the new standard.

Disaggregated Revenue

We recognize our revenue through the sale of our products across various regions.

	September 30, 2020	December 31, 2019
Americas	$ 120,874	$ 128,352
EMEA(1)	7,079	4,380
APAC(2)	390	230
	$ 128,343	$ 132,962

1EMEA represents Europe, the Middle East, and Africa
2APAC represents Asia-Pacific, Australia, and China

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good to the customer, and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Each product sold to a customer typically represents a distinct performance obligation.

Substantially all of our revenue is recognized at a point in time when performance obligations are satisfied. Performance obligations are supported by contracts with customers, providing a framework for the nature of the distinct goods. The timing of satisfying the performance obligation is typically indicated by the terms of the contract. All performance obligations are expected to be satisfied within one year.

The timing of satisfaction of our performance obligations does not significantly vary from the typical timing of payment. For some contracts, we may be entitled to receive an advance payment.

We have applied the practical expedient to not disclose the value of remaining performance obligations for (i) contracts with an original expected term of one year or less or (ii) contracts for which we recognize revenue in proportion to the amount we have the right to invoice for services performed.

(Dollars in thousands, unless otherwise noted)

Note 6. Accounts Receivables—Net

	September 30, 2020	December 31, 2019
Accounts receivable	$ 44,618	$ 46,297
Less - allowance for doubtful accounts	(607)	(322)
Total	$ 44,011	$ 45,975

Note 7. Inventories

	September 30, 2020	December 31, 2019
Raw materials	$ 2,496	$ 2,580
Finished goods	50,102	51,817
Total	$ 52,598	$ 54,397

Note 8. Property, Plant and Equipment—Net

	September 30, 2020	December 31, 2019
Machinery and equipment	$ 17,039	$ 16,197
Buildings and improvements	9,896	9,680
Land and improvements	294	287
Others	1,271	1,593
Total	28,500	27,757
Less - accumulated depreciation	(16,879)	(15,065)
Net Fixed Assets	$ 11,621	$ 12,692

Depreciation expense was $1,815 thousand and $1,375 thousand in the nine months ended September 30, 2020 and 2019, respectively

(Dollars in thousands, unless otherwise noted)

Note 9. Other Intangible Assets—Net

Other intangible assets, net consist of definite and indefinite lived trademark intangibles. For the nine months ended September 30, 2019 and 2018, there was $100 thousand in gross Trademark which was fully amortized and $17,800 thousand in indefinite life intangible trademark assets.

Note 10. Accrued Liabilities

	September 30, 2020	December 31, 2019
Customer rebate reserve	$ 2,108	$ 4,528
Accrued freight	1,407	621
Compensation, benefit and other employee related	1,074	1,055
Operating lease liability	636	670
Other	2,853	2,143
Total	$ 8,078	$ 9,017

Note 11. Leases

Supplemental cash flow information related to leases was as follows:

	At September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 527
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	$ -

Supplemental balance sheet information related to leases was as follows:

	At September 30, 2020
Operating leases	
Other assets	$ 1,117
Accrued Liabilities	676
Other liabilities	912
Total Operating Lease Liabilities	$ 1,588

Note 12. Financial Instruments and Fair Value Measures

Credit and Market Risk—We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

Foreign Currency Risk Management—We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade. Our primary objective is to preserve the U.S. Dollar value of foreign currency denominated cash flows and earnings.

The carrying value of accounts receivable and account payables contained in the Combined Balance Sheet approximates fair value.

Note 13. Stock-Based Compensation Plans

Honeywell maintains stock-based compensation plans for the benefit of its officers, directors and employees. The following disclosures represent stock-based compensation expenses attributable to Hermes based on the awards and terms previously granted under the Parent's stock-based compensation plans to Hermes employees and an allocation of Parent's corporate and shared functional employee stock-based compensation expenses. Accordingly, the amounts presented are not necessarily indicative of future awards and do not necessarily reflect the results that Hermes would have experienced as an independent company for the periods presented.

Stock-Based Compensation Expense

Stock-based compensation expense recognized in the Combined Statements of Operations approximated $434 thousand and $445 thousand for the nine months ended September 30, 2020 and 2019, respectively of which $147 thousand and $90 thousand, respectively, are specifically identifiable to Hermes employees, and $287 thousand and $355 thousand, respectively, are attributable to shared employees not specifically identifiable to Hermes, allocated based on revenues.

Note 14. Commitments and Contingencies

Other Matters

We are subject to other lawsuits, investigations and disputes arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability, prior acquisitions and divestitures, employee benefit plans, intellectual property, and environmental, health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of possible losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. To date, no such matters are material to the Combined Statements of Operations.

Note 15. Subsequent Events

The Business evaluated subsequent events for recognition or disclosure through December 15, 2020, the date the Combined Financial Statements were available to be issued. The following is a summary of events subsequent to the balance sheet date:

ROCKY BRANDS, INC.
UNAUDITED CONDENSED COMBINED
FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information has been prepared to illustrate the effect of the acquisition of the performance and lifestyle footwear business of Honeywell International Inc. (the "Acquisition"). On March 15, 2021 pursuant to the terms and conditions set forth in the Purchase Agreement, dated January 24, 2021 ("Purchase Agreement"), by and among Honeywell Safety Products USA, Inc., North Safety Products Limited, Honeywell Safety Products (UK) Limited, North Safety de Mexicali S de R.L. de C.V., Honeywell (China) Co. Ltd., and Rocky Brands, Inc. ("Rocky"), Rocky acquired 100% of the voting interests of certain subsidiaries and additional assets comprising the performance and lifestyle footwear business of Honeywell International Inc. ("Hermes Business") with the Acquisition. The aggregate preliminary closing price of the Acquisition was $206 million, net of cash acquired, and was funded through a senior secured term loan facility, senior secured asset-backed credit facility, and cash on hand. The unaudited pro forma condensed combined financial information gives effect to the Acquisition and the additional debt incurred to fund the Acquisition.

The preliminary base purchase price for the Hermes Business was $230 million, and was subject to adjustment to reflect acquired cash, assumed liabilities and preliminary net working capital adjustments. Following initial adjustments, the preliminary closing price for the Hermes Business on March 15, 2021 was $206 million, and included a target net working capital of $52.7 million, net of cash acquired. Our estimated pro forma balance sheet included herein is stated as if the transaction occurred on September 30, 2020. As such, the estimated net working capital at September 30, 2020 is $68.0 million, reflecting a surplus of $15.3 million over the $52.7 million target. This increased the preliminary purchase price as of September 30, 2020, from $206 million to $221 million, net of cash acquired. Working capital balances on the actual date of the acquisition, March 15, 2021, will be different from those estimated at September 30, 2020. Future adjustments for working capital excess (deficit) compared to the $52.7 million target will change as Rocky finalizes valuations and financial results as of the actual date of the acquisition on March 15, 2021.

The unaudited pro forma condensed combined balance sheet gives effect to the Acquisition and related borrowing as if it had been consummated on September 30, 2020 and includes pro forma adjustments based on Rocky management's preliminary valuations of certain tangible and intangible assets. The unaudited pro forma condensed combined balance sheet combines Rocky's unaudited historical consolidated balance sheet as of September 30, 2020 with the Hermes Business unaudited historical combined balance sheet as of September 30, 2020. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2020 and year ended December 31, 2019 gives effect to the Acquisition and related borrowing as if it had been consummated on January 1, 2019 and combines Rocky's historical results for the nine months ended September 30, 2020 and year ended December 31, 2019, with the Hermes Business historical results for the nine months ended September 30, 2020 and year ended December 31, 2019. There were no significant transactions outside the ordinary course of business for the Hermes Business in the nine months ended September 30, 2020 or year ended December 31, 2019.

The tax rate used for the pro forma financial information is a blended statutory tax rate, which will likely vary from the actual effective tax rate in periods subsequent to the completion of the pro forma events. No adjustment has been made to the unaudited pro forma condensed combined financial information as it relates to limitations of the ability to utilize deferred tax assets as a result of the pro forma events.

Rocky is providing the unaudited pro forma condensed combined information for illustrative purposes only and such pro forma information does not represent the consolidated results or financial position of Rocky had its acquisition of the Hermes Business been completed as of the dates indicated. The companies may have performed differently had they been combined during the periods presented. Specifically, the unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies, revenue enhancements or restructuring costs that the combined company may achieve or incur as a result of the acquisition. You should not rely on the unaudited pro forma condensed combined financial information as being indicative of the historical results that would have been achieved had the companies actually been combined during the periods presented. Further, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma condensed combined financial information has been prepared by management in accordance with Regulation S-X Article 11, "Pro Forma Financial Information", as amended by the final rule, "Amendments to Financial Disclosures About Acquired and Disposed Businesses", as adopted by the U.S. Securities and Exchange Commission (the "SEC") on May 21, 2020 ("Article 11") and is presented in U.S. dollars. Rocky elected to voluntarily comply with the amended Article 11 in advance of the mandatory compliance date. The pro forma condensed combined financial information has been presented for informational purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the acquisition of the Hermes Business occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that Rocky will experience after the acquisition.

ROCKY BRANDS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2020
(Amounts in thousands, except per share amounts)

	Historical Rocky	Acquired Business (Note 1)	Transaction Accounting Adjustments	Note 3	Rocky Pro Forma
ASSETS:					
CURRENT ASSETS:					
Cash and cash equivalents	$ 19,947	-	$ (19,947)	A	-
Trade receivables – net	49,188	$ 44,011	-		$ 93,199
Other receivables	364	-	-		364
Inventories – net	80,655	52,598	4,211	B	137,464
Prepaid expenses	3,611	-	-		3,611
Total current assets	153,765	96,609	(15,736)		234,638
LEASED ASSETS	1,399	-	-		1,399
PROPERTY, PLANT & EQUIPMENT – net	31,325	11,621	3,955	C	46,901
GOODWILL	-	34,980	18,585	D	53,565
IDENTIFIED INTANGIBLES – net	30,216	17,800	68,220	E	116,236
DEFERRED INCOME TAXES	-	427	-		427
OTHER ASSETS	355	1,504	778	F	2,637
TOTAL ASSETS	217,060	162,941	75,802		$ 455,803
LIABILITIES AND SHAREHOLDERS' EQUITY:					
CURRENT LIABILITIES:					
Accounts payable	$ 23,834	$ 24,712	$ -		48,546
Contract liabilities	-	-	-		-
Accrued expenses:					-
Salaries and wages	3,813	-	-		3,813
Taxes – other	789	-	-		789
Accrued freight	729	-	-		729
Commissions	544	-	-		544
Accrued duty	4,586	-	-		4,586
Income tax payable	422	-	-		422
Other	1,563	8,078	-		9,641
Total current liabilities	36,280	32,790	-		69,070
LONG-TERM DEBT	-	-	207,784	G	207,784
LONG-TERM TAXES PAYABLE	169	-	-		169
LONG-TERM LEASE	833	-	-		833
DEFERRED INCOME TAXES	8,108	3,013	-		11,121
DEFERRED LIABILITIES	238	1,054	-		1,292
TOTAL LIABILITIES	45,628	36,857	207,784		290,269
SHAREHOLDERS' EQUITY	171,432	126,084	(131,982)	H	165,534
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 217,060	$ 162,941	$ 75,802		$ 455,803

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial information.

ROCKY BRANDS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in thousands, except per share amounts)

	Historical Rocky	Acquired Business (Note 1)	Transaction Accounting Adjustments	Note 3	Rocky Pro Forma
NET SALES	$ 270,408	$ 203,028	-		$ 473,436
COST OF GOODS SOLD	172,723	139,824	$ (1,176)	I	311,371
GROSS MARGIN	97,685	63,204	1,176		162,065
OPERATING EXPENSES	75,600	53,236	7,385	J	136,221
INCOME FROM OPERATIONS	22,085	9,968	(6,209)		25,844
OTHER INCOME (EXPENSES)	146	-	(13,853)	G	(13,707)
INCOME BEFORE INCOME TAXES	22,231	9,968	(20,062)		12,137
INCOME TAX EXPENSE	4,769	4,258	(6,176)	K	2,851
NET INCOME	$ 17,462	$ 5,710	$ (13,886)		$ 9,286
INCOME PER SHARE					
Basic	$ 2.36				$ 1.26
Diluted	$ 2.35				$ 1.25
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	7,387				7,387
Diluted	7,439				7,439

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial information.

ROCKY BRANDS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(Amounts in thousands, except per share amounts)

	Historical Rocky	Acquired Business (Note 1)	Transaction Accounting Adjustments	Note 3	Rocky Pro Forma
NET SALES	$ 189,691	$ 128,343	-		$ 318,034
COST OF GOODS SOLD	121,077	89,447	$ (1,846)	I	208,678
GROSS MARGIN	68,614	38,896	1,846		109,356
OPERATING EXPENSES	54,344	37,691	3,036	J	95,071
INCOME FROM OPERATIONS	14,270	1,205	(1,190)		14,285
OTHER EXPENSES	(112)	-	(10,195)	G	(10,307)
INCOME BEFORE INCOME TAXES	14,158	1,205	(11,385)		3,978
INCOME TAX EXPENSE (INCOME)	2,917	(259)	(1,699)	K	959
NET INCOME	$ 11,241	$ 1,464	$ (9,686)		$ 3,019
INCOME PER SHARE					
Basic	$ 1.54				$ 0.41
Diluted	$ 1.53				$ 0.41
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	7,323				7,306
Diluted	7,352				7,336

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial information.

Note 1. Basis of pro forma preparation

The unaudited pro forma combined financial statements are based on the historical consolidated financial statements of Rocky and the historical financial statements of the Hermes Business, after giving effect to the acquisition using the acquisition method of accounting in accordance with Accounting Standards Codification Topic 805, Business Combinations, (ASC 805) and applying the assumptions and adjustments described in the accompanying notes.

The unaudited pro forma condensed combined balance sheet combines Rocky's unaudited historical consolidated balance sheet as of September 30, 2020 with the Hermes Business' unaudited historical combined balance sheet as of September 30, 2020 and reflects the Acquisition and related borrowings as if it had been consummated on September 30, 2020.

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2019 and the nine months ended September 30, 2020 gives effect to the Acquisition and related borrowings as if it has been consummated on January 1, 2019.

The Hermes Business historical statements of operations have been adjusted to align with Rocky's presentation as described below:

- Outbound freight included in cost of goods sold was reclassified to operating expenses within the accompanying unaudited pro forma condensed combined statements of operation**s**
- Product development costs included in operating expenses were reclassified to cost of goods sold within the accompanying unaudited pro forma condensed combined statements of operation**s**

Accounting Policies

During preparation of the unaudited pro forma condensed combined financial information, Rocky management has performed a preliminary analysis and is not aware of any material differences other than the pro forma reclassifications detailed in Note 1. Accordingly, this unaudited pro forma condensed combined financial information assumes no material differences in accounting policies between the two companies, other than the pro forma reclassifications detailed in Note 1. Following the acquisition date, Rocky management will conduct a final review of the Hermes Business' accounting policies in order to determine if differences in accounting policies require adjustment or reclassification of the Hermes Business' results of operations or reclassification of assets or liabilities to conform to Rocky's accounting policies. As a result of this review, Rocky management may identify differences that, when adjusted or reclassified, could have a material impact on this unaudited pro forma condensed combined financial information.

Note 2. Preliminary Purchase Price Allocation

The acquisition of the Hermes Business is being accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and liabilities assumed are recognized based upon their estimated fair values at the acquisition date, under ASC 805.

The fair values of the assets and liabilities in the unaudited pro forma condensed combined financial statements are based upon a preliminary assessment of fair value and may change when the final valuation of tangible and intangible assets, working capital and tax-related matters are finalized. Rocky expects to finalize the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

The preliminary closing price for the Hermes Business was $206 million, net of cash, with adjustments as necessary based on an estimated working capital deficit. The preliminary closing price of $206 million, net of cash, included a target net working capital of $52.7 million. Future adjustments for working capital excess (deficit) compared to the $52.7 million target will change as Rocky finalizes valuations and financial results as of the actual date of the acquisition on March 15, 2021.

Based on September 30, 2020 financial information, Rocky estimated total acquisition consideration and the preliminary allocation of fair value to the related assets and liabilities as follows:

($ in thousands)	Fair Value
Preliminary closing price, net of cash	$ 205,783
Estimated working capital excess if transaction closed on September 30, 2020	15,272
Estimated purchase price, net of cash acquired	221,055
Estimated net assets acquired if transaction closed on September 30, 2020:	
Accounts receivable	44,011
Inventories	56,809
Total current assets	100,820
Accounts payable	(24,712)
Accrued expenses	(8,078)
Estimated working capital	68,030
Property, plant and equipment	15,576
Intangible assets	86,020
Other assets	1,931
Deferred taxes	(3,013)
Deferred liabilities	(1,054)
Net identifiable assets acquired	167,490
Goodwill	53,565
Net assets acquired	221,055

Note 3. Unaudited Pro Forma Adjustments to the Condensed Combined Balance Sheet

The pro forma adjustments are based on Rocky's preliminary estimates and assumptions that are subject to change including with respect to final purchase price and allocation thereof. Accordingly, the purchase price allocation is considered preliminary and may materially change before final determination. The changes would affect the values assigned to tangible or intangible assets and depreciation or amortization. The following adjustments have been reflected in the unaudited pro forma combined condensed balance sheet as if the acquisition occurred on September 30, 2020 and in the unaudited pro forma combined condensed statements of operations as if the acquisition occurred on January 1, 2019.

A. Cash and cash equivalents

Cash and cash equivalents have been adjusted as follows:

($ in thousands)		Amount
Net proceeds from term facility and ABL facility (1)	$	207,784
Consideration transferred, net of cash acquired (2)		(205,783)
Based on working capital at 9/30/2020, estimated acquisition price		(15,272)
Acquisition-related costs (3)		(6,676)
Total transaction accounting adjustment to cash	$	(19,947)

(1) Reflects the proceeds, net of debt issuance costs, from the issuance of the senior secured term loan facility and senior secured asset-based credit facility. See note 3(E).

(2) Reflects total cash consideration transferred, net of cash received, to Honeywell International Inc. upon closing.

(3) Reflects acquisition-related costs associated with banking fees, legal and professional fees, and consulting fees.

B. Inventories – net

The adjustment steps up the pro forma balance sheet for the Hermes Business' inventory to fair value. The calculation of fair value is preliminary and subject to change. The fair value was determined based on the estimated selling price of the inventory, less the remaining manufacturing and selling costs and a normal profit margin on those selling efforts. The pro forma income statement for the year ended December 31, 2019 is also adjusted to increase cost of sales by the same amount as the inventory is expected to be sold within one year of the acquisition date.

C. Property, plant & equipment -– net

An adjustment of $4.0 million was made to reflect the preliminary fair value of acquired property, plant and equipment of $15.6 million. The following table summarizes the transaction accounting adjustment for property, plant and equipment as of September 30, 2020 as if the transaction consummated on September 30, 2020 and the transaction accounting adjustment for depreciation expense for the year ended December 31, 2019 as if the transaction consummated on January 1, 2019:

		Preliminary	Average Estimated Remaining Useful	Depreciation Expense for the Year Ended December 31, 2019					
($ in thousands)		Fair Value	Life in Years		Total		Cost of Goods Sold		Operating Expenses
Machinery and equipment	$	9,089	9	$	1,010	$	677	$	333
Buildings and improvements		5,432	20		272		182		90
Land and improvements		161	-		-		-		-
Others		894	5		179		120		59
Total		15,576			1,461		979		482
Less: amounts included in the historical balance sheet and statement of operations of Hermes Business		(11,621)			(2,009)		(1,346)		(663)
Net transaction accounting adjustments	$	3,955		$	(548)	$	(367)	$	(181)

The following table summarizes the transaction accounting adjustment for depreciation expense for the nine months ended September 30, 2020 as if the transaction consummated on January 1, 2019:

	Depreciation Expense for the Nine Months Ended September 30, 2020					
($ in thousands)		Total		Cost of Goods Sold		Operating Expenses
Machinery and equipment	$	758	$	508	$	250
Buildings and improvements		204		136		68
Land and improvements		-		-		-
Others		134		90		44
Total		1,096		734		362
Less: amounts included in the historical statement of operations of Hermes Business		(1,815)		(1,216)		(599)
Net transaction accounting adjustment	$	(719)	$	(482)	$	(237)

D. Goodwill

Reflects the preliminary purchase price allocation and recognition of goodwill. Adjustment of $18.6 million reflects the Goodwill resulting from the acquisition consisting largely of synergies and economies of scale expected from combining the operations of Rocky and the Hermes Business. The full amount of goodwill is expected to be deductible for income tax purposes.

E. Identified intangibles – net

The preliminary amounts assigned to the identifiable intangible assets, the estimated useful lives, and the estimated amortization expense related to these identifiable intangible assets are as follows:

($ in thousands)		Preliminary Fair Value	Average Estimated Remaining Useful Life in Years		Amortization Expense for the Year Ended December 31, 2019		Amortization Expense for the Nine Months Ended September 30, 2020
Customer Relationships	$	34,300	15	$	2,287	$	1,715
Trade Names		51,720	*Indefinite*		-		-
	$	86,020		$	2,287	$	1,715

F. Other assets

An adjustment of $0.8 million was made to account for reps and warranties insurance coverage premiums purchased to cover key risk areas in connection with the Acquisition, which will be amortized over three years.

G. Long-term debt and interest expense

On March 15, 2021, Rocky entered into a senior secured term loan facility ("Term Facility") with TCW Asset Management Company, LLC, as agent, for the lenders party thereto in the amount of $130 million. On March 15, 2021, Rocky also entered into a senior secured asset-based credit facility (“ABL Facility”) with Bank of America, N.A. as agent, for the lenders party thereto, with $80 million funded at March 15, 2021. The net proceeds from the Term Facility and ABL Facility was $206 million, after deducting debt issuance costs of $4.3 million. Rocky used the net proceeds from the Term Facility and ABL facility to finance the acquisition.

The table below illustrates Rocky’s debt transaction and summarizes Rocky’s transaction accounting adjustment as if the Acquisition consummated on September 30, 2020:

($ in thousands)		September 30, 2020
Term Facility	$	130,000
ABL Facility		80,000
Total debt		210,000
Less: Unamortized debt issuance costs		(4,266)
Plus: Additional cash needed to fund acquisition(1)		2,050
Total pro forma adjustment to Rocky's long-term debt	$	207,784

(1) Additional cash needs resulting from acquisition-related costs noted in Note 3(A) would have been borrowed against the ABL facility had the transaction consummated September 30, 2020.

Interest payments on the Term Facility are due in arrears on the last business day of each calendar quarter at a rate of 8.00% per annum. Interest payments on ABL Facility are in arrears on the last business day of each calendar quarter at a rate of 3.25% per annum. Total interest expense has been calculated as if the Acquisition consummated on January 1, 2021.

($ in thousands)		Year Ended December 31, 2019		Nine Months Ended September 30, 2020
Interest expense on new term facility	$	10,400		7,605
Interest expense on new ABL facility		2,600		1,950
Amortization of new debt issuance costs		853		640
Total pro forma adjustment to interest expense	$	13,853	$	10,195

H. Shareholders' equity

Shareholders' equity has been adjusted as follows:

($ in thousands)		**Amount**
Retained Earnings(1)	$	(5,898)
Invested Equity(2)		(126,922)
Accumulated other comprehensive loss(3)		838
Total transaction accounting adjustment to shareholders' equity	$	(131,982)

(1) Adjustment of $6.7 million to reflect the Company's transaction expenses included in retained earnings, see note 3(A).

(2) Elimination of invested equity included in the historical statement of operations of the Hermes' Business.

(3) Elimination of accumulated other comprehensive loss included in the historical statement of operations of the Hermes' Business.

I. Cost of goods sold

Adjustments to cost of goods sold are as follows:

($ in thousands)		Year Ended December 31, 2019		Nine Months Ended September 30, 2020
Reclassification of outbound freight(1)	$	(7,866)	$	(3,499)
Reclassification of product development costs(1)		2,846		2,135
Amortization of inventory step-up (2)		4,211		-
Transaction accounting adjustment to depreciation of acquired property, plant and equipment(3)		(367)		(482)
Total pro forma adjustments to cost of goods sold	$	(1,176)	$	(1,846)

(1) See note 2.

(2) See note 3(B).

(3) See note 3(C).

J. Operating expenses

Adjustments to operating expenses are as follows:

($ in thousands)	Year Ended December 31, 2019	Nine Months Ended September 30, 2020
Reclassification of outbound freight(1)	$ 7,866	$ 3,499
Reclassification of product development costs(1)	(2,846)	(2,135)
Transaction accounting adjustment to depreciation of acquired property, plant and equipment(2)	(181)	(237)
Transaction accounting adjustment to amortization of customer relationships	2,287	1,715
Transaction accounting adjustment to amortization of other assets	259	194
Total pro forma adjustments to operating expenses	$ 7,385	$ 3,036

(1) See note 2.

(2) See note 3(B).

K. Income tax expense

Net adjustment to reflect income tax expense at Rocky's effective tax rate. The total effective tax rate of the combined company is subject to change based upon post-acquisition income by jurisdiction and other factors.