

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

OR

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

Commission File Number: **001-34382**

ROCKY BRANDS, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

No. 31-1364046

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

39 East Canal Street, Nelsonville, Ohio 45764

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes No

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$40,638,089 on June 30, 2020.

There were 7,250,911 shares of the registrant's Common Stock outstanding on February 28, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders are incorporated by reference in Part III.

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. Business	2
Item 1A. Risk Factors	9
Item 1B. Unresolved Staff Comments	16
Item 2. Properties	17
Item 3. Legal Proceedings	17
Item 4. Mine Safety Disclosures	17
<u>PART II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6. Selected Consolidated Financial Data	19
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	26
Item 8. Financial Statements and Supplementary Data	27
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	51
Item 9A. Controls and Procedures	51
Item 9B. Other Information	54
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	54
Item 11. Executive Compensation	54
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	54
Item 13. Certain Relationships and Related Transactions, and Director Independence	54
Item 14. Principal Accounting Fees and Services	54
<u>PART IV</u>	
Item 15. Exhibits and Financial Statement Schedules	55
SIGNATURES	58
Appendix A: Financial Statement Schedule	59

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words “anticipate,” “believe,” “expect,” “estimate,” and “project” and similar words and expressions identify forward-looking statements which speak only as of the date hereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors, including, but not limited to, the factors discussed in “Item 1A, Risk Factors.” The Company undertakes no obligation to publicly update or revise any forward-looking statements.

PART I

ITEM 1. BUSINESS.

All references to “we,” “us,” “our,” “Rocky Brands,” or the “Company” in this Annual Report on Form 10-K mean Rocky Brands, Inc. and our subsidiaries.

We are a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky, Georgia Boot, Durango, Lehigh, and the licensed brand Michelin. In addition, on March 15, 2021, we closed on our acquisition of the performance and lifestyle footwear business of Honeywell International, Inc., which expanded our brand portfolio to include The Original Muck Boot Company (“Muck”), XTRATUF, Servus, NEOS and Ranger brands. Our brands have a long history of representing high quality, comfortable, functional and durable footwear and our products are organized around six target markets: outdoor, work, duty, commercial military, military, and western. Our footwear products incorporate varying features and are positioned across a range of suggested retail price points from \$44.00 for our value priced products to \$345.00 for our premium products. In addition, as part of our strategy of outfitting consumers from head-to-toe, we market complementary branded apparel and accessories that we believe leverage the strength and positioning of each of our brands.

Our products are distributed through three distinct business segments: Wholesale, Retail and Military. In our Wholesale business, we distribute our products through a wide range of distribution channels representing over 10,000 retail store locations in the U.S. and Canada as well as in several international markets. Our Wholesale channels vary by product line and include sporting goods stores, outdoor retailers, independent shoe retailers, hardware stores, catalogs, mass merchants, uniform stores, farm store chains, specialty safety stores, specialty retailers and online retailers. Our Retail business includes direct sales of our products to consumers through our business to business web platform, e-commerce websites, third party marketplaces and our Rocky outlet store. We also sell footwear under the Rocky label to the U.S. military.

Competitive Strengths

Our competitive strengths include:

- *Strong portfolio of brands.* We believe the Rocky, Georgia Boot, Durango, Lehigh, and Michelin brands, along with our recently acquired Muck, XTRATUF, Servus, NEOS and Ranger Brands are well recognized and established names that have a reputation for performance, quality and comfort in the markets they serve: outdoor, work, duty, commercial military, and western. We plan to continue strengthening these brands through product innovation in existing footwear markets, by extending certain of these brands into our other target markets and by introducing complementary apparel and accessories under our own brands.
- *Commitment to product innovation.* We believe a critical component of our success in the marketplace has been a result of our continued commitment to product innovation. Our consumers demand high quality, durable products that incorporate the highest level of comfort and the most advanced technical features and designs. We have a dedicated group of product design and development professionals, including well recognized experts in the footwear and apparel industries, who continually interact with consumers to better understand their needs and are committed to ensuring our products reflect the most advanced designs, features and materials available in the marketplace.
- *Long-term retailer relationships.* We believe that our long history of designing, manufacturing and marketing premium quality, branded footwear has enabled us to develop strong relationships with our retailers in each of our distribution channels. We reinforce these relationships by continuing to offer innovative footwear products, by continuing to meet the individual needs of each of our retailers and by working with our retailers to improve the visual merchandising of our products in their stores. We believe that strengthening our relationships with retailers will allow us to increase our presence through additional store locations and expanded shelf space, improve our market position in a consolidating retail environment and enable us to better understand and meet the evolving needs of both our retailers and consumers.

- *Diverse product sourcing and manufacturing capabilities.* We believe our strategy of utilizing both company operated and third-party facilities for the sourcing of our products, offers several advantages. Operating our own facilities significantly improves our knowledge of the entire production process, which allows us to more efficiently source product from third parties that is of the highest quality and at the lowest cost available. We intend to continue to source a higher proportion of our products from third-party manufacturers, which we believe will enable us to obtain high quality products at lower costs per unit.

Growth Strategy

We intend to increase our sales through the following strategies:

- *Expand into new target markets under existing brands.* We believe there is significant opportunity to extend certain of our brands into our other target markets. We intend to continue to introduce products across varying feature sets and price points in order to meet the needs of our customers.
- *Cross-sell our brands to our retailers.* We believe that many retailers of our brands target consumers with similar characteristics and, as a result, we believe there is significant opportunity to offer each of our retailers a broader assortment of footwear and apparel that target multiple markets and span a range of feature sets and price points.
- *Expand business internationally.* We intend to extend certain of our brands into international markets. We believe this is a significant opportunity because of the long history and authentic heritage of these brands. We intend on growing our business internationally through a network of distributors.
- *Grow our e-commerce business.* We intend to drive business to our branded e-commerce websites as well as third party marketplace platforms. We believe there is an opportunity to capitalize on the changes in the market to online shopping as we focus advertising efforts and maximize our distribution facility which is an Amazon Prime certified fulfillment center.
- *Increases in our Lehigh business.* We believe that our business to business CustomFit platform has ample opportunity to grow as we continue to pursue large manufacturers, distributors, and other companies who are reliant on safety footwear programs. We feel that diversifying our product lines and continuing to provide an easy, no hassle approach to purchasing, will allow us to expand within the market.
- *Acquire or develop new brands.* We intend to continue to acquire or develop new brands that are complementary to our portfolio and could leverage our operational infrastructure and distribution network. In March 2021, we were able to implement this strategy with the acquisition of the performance and lifestyle footwear business of Honeywell International, Inc., which expanded our brand portfolio to include Muck, XTRATUF, Servus, NEOS and Ranger brands.

Product Lines

Our product lines consist of high-quality products that target the following markets:

- *Work.* Our work product lines consist of footwear and apparel marketed to industrial and construction workers, as well as workers in the hospitality industry, such as restaurants or hotels. All of our work products are specially designed to be comfortable, incorporate safety features for specific work environments or tasks and meet applicable federal and other standards for safety. This category includes products such as safety toe footwear for industrial and construction workers and non-slip footwear for hospitality workers.
- *Western.* Our western product line currently consists of authentic footwear products marketed to farmers and ranchers who generally live in rural communities in North America.
- *Commercial Military.* Our commercial military product line consists of footwear products marketed to military personnel as a substitute for the government issued military boots. Our commercial military boots are designed to be comfortable, lightweight, and durable and are marketed under the Rocky brand name.

[Table of Contents](#)

- *Outdoor.* Our outdoor product lines consist of footwear, apparel and accessory items marketed to outdoor enthusiasts who spend time actively engaged in activities such as hunting, fishing, camping and hiking. Our consumers demand high quality, durable products that incorporate the highest level of comfort and the most advanced technical features, and we are committed to ensuring our products reflect the most advanced designs, features and materials available in the marketplace. Our outdoor product lines consist of all-season sport/hunting footwear, apparel and accessories that are typically waterproof and insulated and are designed to keep outdoor enthusiasts comfortable on rugged terrain or in extreme weather conditions.
- *Duty.* Our duty product line consists of footwear products marketed to law enforcement, security personnel and postal employees who are required to spend a majority of time at work on their feet. All of our duty footwear styles are designed to be comfortable, flexible, lightweight, slip resistant and durable. Duty footwear is generally designed to fit as part of a uniform and typically incorporates stylistic features, such as black leather uppers in addition to the comfort features that are incorporated in all of our footwear products.
- *U.S. Military.* Our U.S. military product line consists of footwear products designed specifically for U.S. military personnel. These footwear products are designed and manufactured to meet the rigorous specification requirements, which include lightweight, durable, waterproof footwear products manufactured in the U.S.A. The U.S. military products are marketed under the Rocky Brand name.

Our products are marketed under four well-recognized, proprietary brands, Rocky, Georgia Boot, Durango, and Lehigh, in addition to the licensed brand Michelin. In addition, we have acquired Muck, XTRATUF, Servus, NEOS and Ranger brands as a part of our recent acquisition of the performance and lifestyle footwear business of Honeywell International, Inc.

Rocky

Rocky, established in 1979, is our premium priced line of branded footwear, apparel and accessories. We currently design Rocky products for each of our six target markets and offer our products at a range of suggested retail price points: \$52.00 to \$335.00 for our footwear products, \$42.00 to \$135.00 for tops and bottoms in our apparel lines and \$13.00 to \$60.00 for our basic and technical outerwear.

The Rocky brand originally targeted outdoor enthusiasts, particularly hunters, and has since become a market leader in the hunting boot category. In 2002, we also extended into hunting apparel, including jackets, pants, gloves and caps. Our Rocky products for hunters and other outdoor enthusiasts are designed for specific weather conditions and the diverse terrains of North America. These products incorporate a range of technical features and designs such as Gore-Tex waterproof breathable fabric, 3M Thinsulate insulation, nylon Cordura fabric and camouflaged uppers featuring either Venator, Mossy Oak or Realtree patterns. We use rugged outsoles made by industry leaders like Vibram as well as our own proprietary design features like the "Rocky Ride Comfort System" to make the products durable and easy to wear.

We also produce Rocky duty and commercial military footwear targeting law enforcement professionals, military, security workers and postal service employees, and we believe we have established a leading market share position in this category.

In 2002, we introduced Rocky work footwear designed for varying weather conditions or difficult terrain, particularly for people who make their living outdoors such as those in lumber, forestry, and oil & gas occupations. These products typically include many of the proprietary features and technologies that we incorporate in our hunting and outdoor products.

We have also introduced western influenced work boots for farmers and ranchers. Most of these products are waterproof, insulated and utilize our proprietary comfort systems. We have also introduced men's and women's casual western footwear for consumers enamored with western influenced fashion.

Georgia Boot

Georgia Boot was launched in 1937 and is our moderately priced, high quality line of work footwear. Georgia Boot footwear is sold at suggested retail price points ranging from \$62.00 to \$255.00. This line of products primarily targets construction workers and those who work in industrial plants where special safety features are required for hazardous work environments. Many of our boots incorporate steel toes or metatarsal guards to protect wearers' feet from heavy objects and non-slip outsoles to prevent slip related injuries in the workplace. All of our boots are designed to help prevent injury and subsequent work loss and are designed according to standards determined by the Occupational Safety & Health Administration or other standards required by employers.

[Table of Contents](#)

In addition, we market a line of Georgia Boot footwear to brand loyal consumers for hunting and other outdoor activities. These products are primarily all leather boots distributed in the western and southwestern states where hunters do not require camouflaged boots or other technical features incorporated in our Rocky footwear.

Durango

Durango is our moderately priced, high quality line of western footwear. Launched in 1965, the brand has developed broad appeal and earned a reputation for authenticity and quality in the western footwear and apparel market. Our current line of products is offered at suggested retail price points ranging from \$66.00 to \$345.00, and we market products designed for both work and casual wear. Our Durango line of products primarily targets farm and ranch workers who live in the heartland where western influenced footwear and apparel is worn for work and casual wear and, to a lesser extent, this line appeals to urban consumers enamored with western influenced fashion. Many of our western boots marketed to farm and ranch workers are designed to be durable, including special "barn yard acid resistant" leathers to maintain integrity of the uppers, and incorporate our proprietary "Comfort Core" system to increase ease of wear and reduce foot fatigue. Other products in the Durango line that target casual and fashion-oriented consumers have colorful leather uppers and shafts with ornate stitch patterns and are offered for men, women and children.

Lehigh

The Lehigh brand was launched in 1922 and is our moderately priced, high quality line of safety shoes sold at suggested retail price points ranging from \$77.00 to \$223.00. Our current line of products is designed to meet occupational safety footwear needs. Most of this footwear incorporates steel toes to protect workers and often incorporates other safety features such as metatarsal guards or non-slip outsoles. Additionally, certain models incorporate durability features to combat abrasive surfaces or caustic substances often found in some workplaces.

With the shift in manufacturing jobs to service jobs in the U.S., Lehigh began marketing products for the hospitality industry. These products have non-slip outsoles designed to reduce slips, trips and falls in hospitality environments where floors are often tiled and greasy. Price points for this kind of footwear range from \$44.00 to \$73.00.

Michelin

Michelin is a premier price point line of work footwear targeting specific industrial professions, primarily indoor professions. The license to design, develop and manufacture footwear under the Michelin name was secured in 2006. Suggested retail prices for the Michelin brand are from \$125.00 to \$195.00. The license agreement for the Michelin brand expires on December 31, 2025, with the option to renew.

The Original Muck Boot Company

The Original Muck Boot Company has pioneered the quality rubber and neoprene boot category by delivering remarkably weatherproof and exceptionally comfortable products made with premium materials designed to brave every element.

XTRATUF

XTRATUF is a leading outfitter in the commercial fishing segment having provided fisherman with capable, comfortable and reliable footwear in wet conditions for nearly 60 years.

Servus

Servus boots date back to the 1920s and today the brand is known for its high quality, accessible PVC footwear made for wet working conditions.

NEOS

NEOS is known for overshoes with extreme traction. Its products are proven to keep feet dry and comfortable in extreme conditions and surefooted on almost any terrain.

Ranger

Ranger boots are built for wet weather and provide exceptional comfort and function at a value price.

Sales and Distribution

Our products are distributed through three distinct business segments: Wholesale, Retail and Military. See [Note 16](#) of our consolidated financial statements for more information regarding our three business segments.

Wholesale

In the U.S., we distribute Rocky, Georgia Boot, Durango, and Michelin products through a wide range of wholesale distribution channels. As of December 31, 2020, our products were offered for sale at over 10,000 retail locations in the U.S. and Canada.

We sell our products to wholesale accounts in the U.S. primarily through a dedicated in-house sales team who carry our branded products exclusively, as well as independent sales representatives who carry our branded products and other non-competing products. Our sales force is organized around major accounts, including Boot Barn, Army & Air Force Exchange Service ("AAFES"), Dick's Sporting Goods, Tractor Supply Company and Amazon, and around our target markets: outdoor, work, duty, commercial military, and western. For our Rocky, Georgia Boot and Durango brands, our sales employees are organized around each brand and target a broad range of distribution channels. All of our sales people actively call on their retail customer base to educate them on the quality, comfort, technical features and breadth of our product lines and to ensure that our products are displayed effectively at retail locations.

Our Wholesale distribution channels vary by market:

- Our outdoor products are sold primarily through sporting goods stores, outdoor specialty stores, online retailers, catalogs, and mass merchants.
- Our work-related products are sold primarily through retail uniform stores, catalogs, farm store chains, specialty safety stores, independent shoe stores, hardware stores and online retailers.
- Our duty products are sold primarily through uniform stores, catalog specialists and online retailers.
- Our commercial military products are sold primarily through base exchanges such as AAFES and consumer e-commerce websites.
- Our western products are sold through western stores, work specialty stores, specialty farm and ranch stores, online retailers and more recently, fashion-oriented footwear retailers.

Retail

We market products directly to consumers through three retail strategies under the Lehigh retail brand: Lehigh business-to-business including direct sales and through our Custom Fit websites, consumer e-commerce websites and third-party marketplaces, and our stores, which include our outlet store and retail stores.

Websites

We sell our product lines on our websites at www.rockyboots.com, www.georgiaboot.com, www.durangoboot.com, www.lehighoutfitters.com, www.lehighsafetyshoes.com, and www.slipgrips.com, as well as through online marketplaces. We believe that our internet presence allows us to showcase the breadth and depth of our product lines in each of our target markets and enables us to educate our consumers about the unique technical features of our products. We also sell to our business customers directly through our Custom Fit websites that are tailored to the specific needs of our customers. Our customers' employees order directly through their employers' established Custom Fit website and the footwear is delivered directly to the consumer via a common freight carrier. Our customers include large, national companies such as Carnival Cruise Lines, Pepsi, Schneider, Whirlpool, Holland America Cruise Lines, and Waste Management.

Outlet Store

We operate the Rocky outlet store in Nelsonville, Ohio. Our outlet store primarily sells first quality or discontinued products in addition to a limited amount of factory damaged goods. Related products from other manufacturers are also sold in the store. Our outlet store allows us to showcase the breadth of our product lines as well as to cost-effectively sell slow-moving inventory. Our outlet store also provides an opportunity to interact with consumers to better understand their needs.

Retail Stores

Lehigh's successful continued focus on converting our customers from delivery via our mobile and retail stores to purchasing via our Custom Fit sites and delivery direct has led to the continued reduction of the mobile and retail stores in the past several years. As of December 31, 2020, our only remaining retail store is located at The Puget Sound Naval Base.

Military

While we are focused on continuing to build our Wholesale and Retail business, we also actively bid, from time to time, on eligible footwear contracts with the U.S. military. Our sales under such contracts are dependent on us winning the bids for these contracts.

We are currently fulfilling several multiyear contracts for the U.S. military.

Marketing and Advertising

We believe that our brands have a reputation for high quality, comfort, functionality and durability built through their long history in the markets they serve. To further increase the strength and awareness of our brands, we have developed comprehensive marketing and advertising programs to gain national exposure and expand brand awareness for each of our brands in their target markets.

[Table of Contents](#)

We have focused the majority of our advertising efforts on both digital advertising and consumer advertising in support of our retail partners. Digital advertising includes online brand level marketing, search engine pay-per-click, retargeting and social media targeting. A key component to supporting our retail partners includes in-store point of purchase materials that add a dramatic focus to our brands and the products our retail partners carry. We also advertise through targeted national and local cable programs, radio advertisements and print publications aimed at audiences that share the demographic profile of our typical customers. In addition, we promote through event sponsorships which provide significant national exposure for all of our brands as well as a direct connection to our target consumer. Our print advertisements and television commercials emphasize the technical features of our products as well as their high quality, comfort, functionality and durability.

We also support independent dealers by listing their locations in our national print advertisements. In addition to our national advertising campaigns, we have developed attractive merchandising displays and store-in-store concept fixturing that are available to our retailers who purchase the breadth of our product lines. We also attend numerous tradeshows which allow us to showcase our entire product line to retail buyers and have historically been an important source of new accounts.

Product Design and Development

We believe that product innovation is a key competitive advantage for us in each of our markets. Our goal in product design and development is to continue to create and introduce new and innovative footwear and apparel products that combine our standards of quality, functionality and comfort and that meet the changing needs of our retailers and consumers. Our product design and development process is highly collaborative and is typically initiated both internally by our development staff and externally by our retailers and suppliers, whose employees are generally active users of our products and understand the needs of our consumers. Our product design and development personnel, marketing personnel and sales representatives work closely together to identify opportunities for new styles, camouflage patterns, design improvements and newer, more advanced materials. We have a dedicated group of product design and development professionals, some of whom are well recognized experts in the footwear and apparel industries, who continually interact with consumers to better understand their needs and are committed to ensuring our products reflect the most advanced designs, features and materials available in the marketplace.

Manufacturing and Sourcing

We manufacture footwear in facilities that we operate in the Dominican Republic and Puerto Rico, and source footwear, apparel and accessories from third-party facilities, primarily in China. As a result of our acquisition of the performance and lifestyle footwear business of Honeywell International, Inc., we also obtained manufacturing facilities in Chuzhou, China and Rock Island, Illinois. We do not have long-term contracts with any of our third-party manufacturers. We believe that operating our own facilities significantly improves our knowledge of the entire raw material sourcing and manufacturing process enabling us to more efficiently source finished goods from third parties that are of the highest quality and at the lowest cost available as well as reduce our lead times. In addition, our Puerto Rican facilities allow us to produce footwear for the U.S. military and other commercial businesses that require production by a U.S. manufacturer. Sourcing products from offshore third-party facilities generally enables us to lower our costs per unit while maintaining high product quality and it limits the capital investment required to establish and maintain company operated manufacturing facilities. Because quality is an important part of our value proposition to our retailers and consumers, we source products from manufacturers who have demonstrated the intent and ability to maintain the high quality that has become associated with our brands.

Quality control is stressed at every stage of the manufacturing process and is monitored by trained quality assurance personnel at each of our manufacturing facilities, including our third-party factories. In addition, we utilize a team of procurement, quality control and logistics employees in our China office to visit factories to conduct quality control reviews of raw materials, work in process inventory and finished goods. We also utilize quality control personnel at our finished goods distribution facilities to conduct quality control testing on incoming sourced finished goods and raw materials and inspect random samples from our finished goods inventory from each of our manufacturing facilities to ensure that all items meet our high-quality standards.

Foreign Operations and Sales Outside of the United States

Our products are primarily distributed in the United States, Canada as well as several international markets. We ship our products from our finished goods distribution facility located in Logan, Ohio. Certain of our retailers receive shipments directly from our manufacturing sources, including all of our U.S. military sales, which are shipped directly from our manufacturing facilities in Puerto Rico. Net sales to foreign countries represented approximately 0.8% of net sales in 2020 and 1.4% of net sales in 2019.

As previously mentioned, we maintain manufacturing facilities that we operate in the Dominican Republic and Puerto Rico. In addition, we utilize an office in China to support our contract manufacturers. As a result of our acquisition of the performance and lifestyle footwear business of Honeywell International, Inc. in March 2021, we also obtained a manufacturing facility in Chuzhou, China.

The net book value of fixed assets located outside of the U.S. totaled \$4.5 million at December 31, 2020 and \$3.2 million at December 31, 2019.

Suppliers

We purchase raw materials from sources worldwide. We do not have any long-term supply contracts for the purchase of our raw materials, except for limited blanket purchase orders on leather to protect wholesale selling prices for an extended period of time. The principal raw materials used in the production of our products, in terms of dollar value, are leather, Gore-Tex waterproof breathable fabric, Cordura nylon fabric and soling materials. We believe these materials will continue to be available from our current suppliers. However, in the event these materials are not available from our current suppliers, we believe these products, or similar products, would be available from alternative sources.

Seasonality and Weather

Historically, we have experienced significant seasonal fluctuations in our business as many of our footwear products are used by consumers in adverse weather conditions. In order to meet these demands, we must manufacture and source footwear year-round to be in a position to ship advance and at once orders for these products during the last two quarters of each year. Accordingly, average inventory levels have been highest during the second and third quarters of each year and sales have been highest in the last two quarters of the year. In addition, mild or dry weather conditions historically have had a material adverse effect on sales of our outdoor products, particularly if they occurred in broad geographical areas during late fall or early winter.

Backlog

(\$ in millions)	Years Ended December 31,	
	2020	2019
Wholesale Backlog	\$ 31.5	\$ 12.6
Military Backlog	8.0	7.9
Total Backlog	\$ 39.5	\$ 20.5

Our backlog consists of all open orders as of December 31st of the corresponding year to be shipped at any point in the future. Additionally, factors other than seasonality could have a significant impact on our backlog and, therefore, our backlog at any one point in time may not be indicative of future results.

Patents, Trademarks and Trade Names

We own numerous design and utility patents for footwear, footwear components (such as insoles and outsoles) and outdoor apparel in the U.S. and in foreign countries including Canada, Mexico, China and Taiwan. We own U.S. and certain foreign registrations for the trademarks used in our business, including our trademarks Rocky, Georgia Boot, Durango, and Lehigh. We also recently acquired various patents and trademarks in the acquisition of the performance and lifestyle footwear business of Honeywell International, Inc. In addition, we license trademarks, including Gore-Tex and Michelin, in order to market our products.

Our license with W. L. Gore & Associates, Inc. “(Gore)” permits us to use the Gore-Tex and related marks on products and styles that have been approved in advance by Gore. The license agreement has a one-year term that automatically renews each year, unless either party elects to terminate by giving advance written notice to the other party by October 1 for termination effective December 31 of that same year.

Our license with Michelin Lifestyle Limited permits us to use the Michelin brand and related marks on our products. Our license agreement with Michelin Lifestyle Limited to use the Michelin name expires on December 31, 2025, with the option to renew.

In the U.S., our patents are generally in effect for up to 15 years from the date of the filing of the patent application. Our trademarks are generally valid as long as they are in use and their registrations are properly maintained and have not been found to become generic. Trademarks registered outside of the U.S. generally have a duration of 10 years depending on the jurisdiction and are also generally subject to an indefinite number of renewals for a like period upon appropriate application.

While we have an active program to protect our intellectual property by filing for patents and trademarks, we do not believe that our overall business is materially dependent on any individual patent or trademark. We are not aware of any material infringement of our intellectual property rights or that we are infringing any intellectual property rights owned by third parties. Moreover, we are not aware of any material conflicts concerning our trademarks or our use of trademarks owned by others.

Competition

We operate in a very competitive environment. Product function, design, comfort, quality, technological and material improvements, brand awareness, timeliness of product delivery and pricing are all important elements of competition in the markets for our products. We believe that the strength of our brands, the quality of our products and our long-term relationships with a broad range of retailers allows us to compete effectively in the footwear and apparel markets that we serve. However, we compete with footwear and apparel companies that have greater financial, marketing, distribution and manufacturing resources than we do. In addition, many of these competitors have strong brand name recognition in the markets they serve.

The footwear and apparel industry is also subject to rapid changes in consumer preferences. Some of our product lines are susceptible to changes in both technical innovation and fashion trends. Therefore, the success of these products and styles are more dependent on our ability to anticipate and respond to changing product, material and design innovations as well as fashion trends and consumer demands in a timely manner. Our inability or failure to do so could adversely affect consumer acceptance of these product lines and styles and could have a material adverse effect on our business, financial condition and results of operations.

Human Capital

At December 31, 2020, we had approximately 2,000 employees of which approximately 1,980 are full time employees. Approximately 1,630 of our employees work in our manufacturing facilities in the Dominican Republic and Puerto Rico. We believe our relations with our employees are in good standing. As a result of our acquisition in March 2021 of the performance and lifestyle footwear business of Honeywell International, Inc., we have acquired or will acquire approximately an additional 550 employees, of which approximately 400 work in the manufacturing facilities in Rock Island, Illinois and Chuzhou, China.

Employee Well Being

Founded from the humble beginnings of a small, family owned business, our employees have always been the key to making our Company successful. As such, we believe that fostering an environment that advocates for all areas of employee health (including physical, mental and emotional) is crucial. We have a partnership that allows us to offer a free gym membership for all local Nelsonville employees, a tuition assistance reimbursement program and an employee assistance program, which can assist employees in various aspects of their personal life and overall well-being. We also encourage our employees to take continuing education classes that will aid in their day-to-day work responsibilities and we promote a healthy lifestyle through monthly newsletters and various health focused events throughout the year.

Compensation and Benefits

Our compensation structure is set up to reward employees for performance. We evaluate employee compensation on an annual basis to ensure it is competitive and in-line with market benchmarks and to reward employees who perform at a high level. We offer comprehensive benefit programs to our employees including medical, dental and vision. We also provide a 401(k) match and safe harbor contribution, paid time off including maternal and paternal leave, life insurance and long-term and short-term disability.

Available Information

We make available free of charge on our corporate website, www.rockybrands.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS.

Business Risks

Expanding our brands into new footwear and apparel markets may be difficult and expensive, and if we are unable to successfully continue such expansion, our brands may be adversely affected, and we may not achieve our planned sales growth.

Our growth strategy is founded substantially on the expansion of our brands into new footwear and apparel markets. New products that we introduce may not be successful with consumers or one or more of our brands may fall out of favor with consumers. If we are unable to anticipate, identify or react appropriately to changes in consumer preferences, we may not grow as fast as we plan to grow or our sales may decline, and our brand image and operating performance may suffer.

Furthermore, achieving market acceptance for new products will likely require us to exert substantial product development and marketing efforts, which could result in a material increase in our operating expenses, and there can be no assurance that we will have the resources necessary to undertake such efforts. Material increases in our operating expenses could adversely impact our results of operations and cash flows.

We may also encounter difficulties in producing new products that we did not anticipate during the development stage. Our development schedules for new products are difficult to predict and are subject to change as a result of shifting priorities in response to consumer preferences and competing products. If we are not able to efficiently manufacture newly-developed products in quantities sufficient to support retail distribution, we may not be able to recoup our investment in the development of new products. Failure to gain market acceptance for new products that we introduce could impede our growth, reduce our profits, adversely affect the image of our brands, erode our competitive position and result in long term harm to our business.

Our acquisition of the performance and lifestyle footwear business of Honeywell International, Inc. involves inherent risks such as:

- difficulties in integrating the acquired business, including the potential loss of key personnel from the acquired business, our potential inability to achieve identified financial, operating and other synergies anticipated to result from the acquisition, and integration issues associated with internal controls, among other things, for the acquired business;
- the diversion of management's time from our existing business;
- changes in economic conditions; and
- potential unknown liabilities associated with the acquired business.

While we conducted financial and other due diligence in connection with our acquisition and have representations and warranties insurance coverage, the acquired business may have weaknesses or liabilities that were not accurately assessed or realized at the time of the acquisition and insurance coverage may not cover (or fully cover) such matters. If we are not able to successfully navigate such risks with respect to the acquired business, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A majority of our products are produced outside the U.S. where we are subject to the risks of international commerce and other international conditions.

A majority of our products are produced in the Dominican Republic and China. Therefore, our business is subject to the following risks of doing business offshore:

- the imposition of additional United States legislation and regulations relating to imports, including quotas, duties, taxes or other charges or restrictions;
- foreign governmental regulation and taxation;
- fluctuations in foreign exchange rates;
- changes in economic conditions;
- transportation conditions and costs in the Pacific and Caribbean;
- changes in the political stability of these countries;
- changes in relationships between the United States and these countries; and
- the occurrence of contagious disease or illness.

Changes in any of these factors could materially increase our costs of products or cause us to experience delays and we may not be able to recover all of our cost increases or missed sales. If any of these factors were to render the conduct of business in these countries undesirable or impracticable, we would have to manufacture or source our products elsewhere. There can be no assurance that additional sources or products would be available to us or, if available, that these sources could be relied on to provide product at terms favorable to us. The occurrence of any of these developments could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

- Disruption to our supplier and third party manufacturing partners and vendors and logistics providers, including through the effects of facility closures, reductions in operating hours, labor shortages, and changes in operating procedures;
- Closure or reduced operations of brick and mortar retail stores and reductions in customer traffic, which adversely affects our wholesale channel;
- Lower performance of customers in our wholesale channel, which may result in reduction or cancellation of future orders;
- Closure or reduced operations of manufacturing and other facilities and businesses served by our Lehigh Custom Fit business, resulting in reductions in future orders, which adversely affects our retail channel; and
- Reductions in consumer spending due to macroeconomic conditions caused by the COVID-19 pandemic, including decreased disposable income and increased unemployment, which may result in decreased sales.

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

We conduct a portion of our business pursuant to U.S. military contracts, which are subject to unique risks.

We conduct a portion of our business pursuant to U.S. military contracts which are subject to unique risks. In 2020, 6.8% of our revenues were earned pursuant to U.S. military contracts. Business conducted pursuant to such contracts is subject to extensive procurement regulations and other unique risks. The U.S. military may modify, curtail or choose not to renew one or more of our contracts. In addition, funding pursuant to our U.S. military contracts may be reduced or withheld as part of the U.S. Congressional appropriations process due to fiscal constraints and/or changes in U.S. military strategy. Our contracts with the U.S. military are fixed-price contracts. While fixed price contracts enable us to benefit from performance improvements, cost reductions and efficiencies, they also subject us to the risk of reduced margins or losses if we are unable to achieve estimated costs reductions. The U.S. military provides preference on contract bids to small businesses and our current company structure classifies us as a large business which could have an effect on our ability to be awarded new contracts in the future.

Our success depends on our ability to anticipate consumer trends.

Demand for our products may be adversely affected by changing consumer trends. Our future success will depend upon our ability to anticipate and respond to changing consumer preferences and technical design or material developments in a timely manner. The failure to adequately anticipate or respond to these changes could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We depend on a limited number of suppliers for key production materials, and any disruption in the supply of such materials could interrupt product manufacturing and increase product costs.

We purchase raw materials from a number of domestic and foreign sources. We do not have any long-term supply contracts for the purchase of our raw materials, except for limited blanket orders on leather. The principal raw materials used in the production of our footwear, in terms of dollar value, are leather, Gore-Tex waterproof breathable fabric, Cordura nylon fabric and soling materials. Availability or change in the prices of our raw materials could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our outdoor and insulated products are seasonal and are sensitive to weather conditions.

We have historically experienced significant seasonal fluctuations in our business because we derive a significant portion of our revenues from sales of our outdoor products. Many of our outdoor products are used by consumers in cold or wet weather. As a result, a majority of orders for these products are placed by our retailers in January through April for delivery in July through October. In order to meet demand, we must manufacture and source outdoor footwear year-round to be in a position to ship advance orders for these products during the last two quarters of each year. Accordingly, average inventory levels have been highest during the second and third quarters of each year and sales have been highest in the last two quarters of each year. There is no assurance that we will have either sufficient inventory to satisfy demand in any particular quarter or have sufficient demand to sell substantially all of our inventory without significant markdowns. Mild or dry weather has in the past and may in the future have a material adverse effect on sales of our products, particularly if mild or dry weather conditions occur in broad geographical areas during late fall or early winter.

Our business could suffer if our third-party manufacturers violate labor laws or fail to conform to generally accepted ethical standards.

We require our third-party manufacturers to meet our standards for working conditions and other matters before we are willing to place business with them. As a result, we may not always obtain the lowest cost production. Moreover, we do not control our third-party manufacturers or their respective labor practices. If one of our third-party manufacturers violates generally accepted labor standards by, for example, using forced or indentured labor or child labor, failing to pay compensation in accordance with local law, failing to operate its factories in compliance with local safety regulations or diverging from other labor practices generally accepted as ethical, we likely would cease dealing with that manufacturer, and we could suffer an interruption in our product supply. In addition, such a manufacturer's actions could result in negative publicity and may damage our reputation and the value of our brand and discourage retail customers and consumers from buying our products.

The growth of our business will be dependent upon the availability of adequate capital.

The growth of our business will depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by our business and the availability of equity and debt financing. We cannot assure that our operations will generate positive cash flow or that we will be able to obtain equity or debt financing on acceptable terms or at all. Our revolving credit facility contains provisions that restrict our ability to incur additional indebtedness or make substantial asset sales that might otherwise be used to finance our expansion. Security interests in substantially all of our assets, which may further limit our access to certain capital markets or lending sources, secure our obligations under our revolving credit facility. Moreover, the actual availability of funds under our revolving credit facility is limited to specified percentages of our eligible inventory and accounts receivable. Accordingly, opportunities for increasing our cash on hand through sales of inventory would be partially offset by reduced availability under our revolving credit facility. As a result, we may not be able to finance our current expansion plans.

We must comply with the restrictive covenants contained in our credit facilities.

Our senior secured asset based credit facility and our term loan facility require us to comply with certain financial restrictive covenants that impose restrictions on our operations, including our ability to incur additional indebtedness, make investments of other restricted payments, sell or otherwise dispose of assets and engage in other activities. Any failure by us to comply with the restrictive covenants could result in an event of default under those borrowing arrangements, in which case the lenders could elect to declare all amounts outstanding thereunder to be due and payable, which could have a material adverse effect on our financial condition. Our credit facilities contain restrictive covenants which requires us to maintain a maximum total average ratio and a minimum fixed charge coverage ratio.

We face intense competition, including competition from companies with significantly greater resources than ours, and if we are unable to compete effectively with these companies, our market share may decline and our business could be harmed.

The footwear and apparel industries are intensely competitive, and we expect competition to increase in the future. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do, as well as greater brand awareness in the footwear market. Our ability to succeed depends on our ability to remain competitive with respect to the quality, design, price and timely delivery of products. Competition could materially adversely affect our business, financial condition, results of operations and cash flows.

Our financial success is influenced by the success of our customers, and the loss of a key customer could have a material adverse effect on our financial condition and results of operations.

Much of our financial success is directly related to the ability of our retailer and distributor partners to successfully market and sell our brands directly to consumers. If a retailer or distributor partner fails to satisfy contractual obligations or to otherwise meet our expectations, it may be difficult to locate an acceptable substitute partner. If we determine that it is necessary to make a change, we may experience increased costs, loss of customers, or increased credit or inventory risk. In addition, there is no guarantee that any replacement retailer or distributor partner will generate results that are more favorable than the terminated party. We currently do not have long-term contracts with any of our retailers. Sales to our retailers and distributors are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling by our wholesale customers. We use the timing of delivery dates for our wholesale customer orders as a key factor in forecasting our sales and earnings for future periods. If any of our major customers experience a significant downturn in business or fail to remain committed to our products or brands, these customers could postpone, reduce, or discontinue purchases from us, which could result in us failing to meet our forecasted results. These risks have been exacerbated recently as our key retail customers are operating within a retail industry that continues to undergo significant structural changes fueled by technology and the internet, changes in consumer purchasing behavior and a shrinking retail footprint. We may lose key retail and wholesale customers if they fail to manage the impact of the rapidly changing retail environment. Any loss of one of these key customers, the financial collapse or bankruptcy of one of these customers, or a significant reduction in purchases from one of these customers could result in a significant decline in sales, write-downs of excess inventory, or increased discounts to our customers, any of which could have a material adverse effect on our financial condition or results of operations.

We currently manufacture a portion of our products and we may not be able to do so in the future at costs that are competitive with those of competitors who source their goods.

We currently plan to retain our internal manufacturing capability in order to continue benefiting from expertise we have gained with respect to footwear manufacturing methods conducted at our manufacturing facilities. We continue to evaluate our manufacturing facilities and third-party manufacturing alternatives in order to determine the appropriate size and scope of our manufacturing facilities. There can be no assurance that the costs of products that continue to be manufactured by us can remain competitive with products sourced from third parties.

We rely on our distribution center in Logan, Ohio and manufacturing facilities in the Dominican Republic, Puerto Rico, China and Rock Island, Illinois, and if there is a natural disaster or other serious disruption at any of these facilities, we may be unable to deliver merchandise effectively to our retailers and consumers.

We rely on our distribution center located in Logan, Ohio and our manufacturing facilities in the Dominican Republic, Puerto Rico, China and Rock Island, Illinois. Any natural disaster or other serious disruption at any of these facilities due to fire, tornado, flood, terrorist attack or any other cause could damage our ability to manufacture our products, a portion of our inventory, or impair our ability to use our distribution center as a docking location for merchandise. Any of these occurrences could impair our ability to adequately supply our retailers and consumers and harm our operating results.

If our efforts to establish and protect our trademarks, patents and other intellectual property are unsuccessful, the value of our brands could suffer.

We regard certain of our footwear designs as proprietary and rely on patents to protect those designs. We believe that the ownership of patents is a significant factor in our business. Existing intellectual property laws afford only limited protection of our proprietary rights, and it may be possible for unauthorized third parties to copy certain of our footwear designs or to reverse engineer or otherwise obtain and use information that we regard as proprietary. If our patents are found to be invalid, however, to the extent they have served, or would in the future serve, as a barrier to entry to our competitors, such invalidity could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We own U.S. registrations for many of our trademarks, trade names and designs, including such marks as Rocky, Georgia Boot, Durango, Lehigh, The Original Muck Boot Company, XTRATUF, Servus, NEOS and Ranger. Additional trademarks, trade names and designs are the subject of pending federal applications for registration. We also use and have common law rights in certain trademarks. Over time, we have increased distribution of our goods in several foreign countries. Accordingly, we have applied for trademark registrations in a number of these countries. We intend to enforce our trademarks and trade names against unauthorized use by third parties.

An impairment of intangibles could have an adverse impact to the Company's results of operations.

The carrying value of intangibles represents the fair value of trade names and other acquired intangibles as of the acquisition date. Acquired intangibles expected to contribute indefinitely to the Company's cash flows are not amortized but must be evaluated by the Company at least annually for impairment. If the carrying amounts of one or more of these assets are not recoverable based upon discounted cash flow and market-approach analyses, the carrying amounts of such assets are impaired by the estimated difference between the carrying value and estimated fair value. An impairment charge could adversely affect the Company's results of operations.

Our success depends on our ability to forecast sales.

Our investments in infrastructure and product inventory are based on sales forecasts and are necessarily made in advance of actual sales. The markets in which we do business are highly competitive, and our business is affected by a variety of factors, including brand awareness, changing consumer preferences, product innovations, susceptibility to fashion trends, retail market conditions, weather conditions and economic conditions, and other factors. One of our principal challenges is to improve our ability to predict these factors in order to enable us to better match production with demand. In addition, our growth over the years has created the need to increase the investment in infrastructure and product inventory and to enhance our systems. To the extent sales forecasts are not achieved, costs associated with the infrastructure and carrying costs of product inventory would represent a higher percentage of revenue, which would adversely affect our business, financial condition, results of operations and cash flows.

Our dividend policy may change.

Although we have paid dividends to our shareholders, we have no obligation to continue doing so and may change our dividend policy at any time without notice to our shareholders. Holders of our common stock are only entitled to receive such cash dividends as our Board of Directors may declare out of funds legally available for such payments.

Risks Related to Our Industry

Because the footwear market is sensitive to decreased consumer spending and slow economic cycles, if general economic conditions deteriorate, many of our customers may significantly reduce their purchases from us or may not be able to pay for our products in a timely manner.

The footwear industry has been subject to cyclical variation and decline in performance when consumer spending decreases or softness appears in the retail market. Many factors affect the level of consumer spending in the footwear industry, including:

- general business conditions;
- interest rates;
- the availability of consumer credit;
- weather;
- increases in prices of nondiscretionary goods;
- taxation; and
- consumer confidence in future economic conditions.

Consumer purchases of discretionary items, including our products, may decline during recessionary periods and also may decline at other times when disposable income is lower. A downturn in regional economies where we sell products also reduces sales.

The continued shift in the marketplace from traditional independent retailers to large discount mass merchandisers may result in decreased margins.

A continued shift in the marketplace from traditional independent retailers to large discount mass merchandisers has increased the pressure on many footwear manufacturers to sell products to these mass merchandisers at less favorable margins. Because of competition from large discount mass merchandisers, a number of our small retailing customers have gone out of business, and in the future more of these customers may go out of business, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we do not effectively respond to the trend of consumer shopping moving to online retailers including third party marketplaces, it may negatively impact our business.

The retail industry is rapidly changing, and we must ensure we are evolving both our own online e-commerce websites and third party marketplaces. We must also provide digital assistance to our wholesale customers to support their e-commerce websites. Failure to timely identify and effectively respond to the online trends of the retail industry could negatively impact our product reach and market share. We are making technology investments in our websites and mobile applications. If we are unable to improve or develop relevant technology in a timely manner, our ability to compete and our results of operations could be adversely affected.

General Risk Factors

Changes to United States tax, tariff and import/export regulations may have a negative effect on global economic conditions, financial markets and our business.

The current political climate has introduced greater uncertainty with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and other countries. We source products from manufacturers located outside of the U.S., primarily in China. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported products or the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

There are risks, including stock market volatility, inherent in owning our common stock.

The market price and volume of our common stock have been, and may continue to be, subject to significant fluctuations. These fluctuations may arise from general stock market conditions, the impact of risk factors described in this Item 1A on our results of operations and financial position, or a change in opinion in the market regarding our business prospects or other factors, many of which may be outside our immediate control. Changes in the amounts and frequency of share repurchases or dividends also could adversely affect the value of our common stock.

Disruption of our information technology systems could adversely affect our business

Our information technology systems are critical to our business operations. Any interruption, unauthorized access, impairment or loss of data integrity or malfunction of these systems could severely impact our business, including delays in product fulfillment and reduced efficiency in operations. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems, or with maintenance or adequate support of existing systems, could disrupt or reduce the efficiency of our operations. Disruption to our information technology systems may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, denial-of-service attacks, computer viruses, physical or electronic break-ins, or similar events or disruptions. System redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to our online services and preclude retail transactions. System failures and disruptions could also impede the manufacturing and shipping of products, transactions processing and financial reporting. Additionally, we may be adversely affected if we are unable to improve, upgrade, maintain, and expand our technology systems.

Some of our employees are working remotely which could strain our information technology systems and impact business continuity plans. Remote work could also introduce operational risk such as, but not limited to, cyber security risks.

A cyber-security breach could have a material adverse effect on our business and reputation.

We rely heavily on digital technologies for the successful operation of our business, including electronic messaging, digital marketing efforts and the collection and retention of customer data and employee information. We also rely on third parties to process credit card transactions, perform online e-commerce and social media activities and retain data relating to our financial position and results of operations, strategic initiatives and other important information. Despite the security measures we have in place, our facilities and systems and those of our third-party service providers, may be vulnerable to cyber-security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Any misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information, whether by us or by our third-party service providers, could damage our reputation and our customers' willingness to purchase our products, which may adversely affect our business. In addition, we could incur liabilities and remediation costs, including regulatory fines, reimbursement or other compensatory costs, additional compliance costs, and costs for providing credit monitoring or other benefits to customers or employees affected. We maintain cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any future breaches of our systems.

In addition, as data privacy and marketing laws change, we may incur additional costs to ensure we remain in compliance. If applicable data privacy and marketing laws become more restrictive at the federal or state level, our compliance costs may increase, our ability to effectively engage customers via personalized marketing may decrease, its opportunities for growth may be curtailed by our compliance capabilities or reputational harm and the potential liability for security breaches may increase. We are also subject to U.S. and international data privacy and cybersecurity laws and regulations, which may impose fines and penalties for noncompliance and may have an adverse effect on our operations. For example, the European Union's General Data Protection Regulation (the "GDPR"), which became effective in May 2018, extends the scope of the European Union's data protection laws to all companies processing data of European Union residents, regardless of our location, and imposes significant new requirements on how we collect, processes and transfer personal data.

In addition, California adopted the California Consumer Privacy Act (the "CCPA"), which became effective January 1, 2020 and limits how we may collect and use personal data. As a result, GDPR and CCPA compliance increased our responsibility and potential liability in relation to personal data that we process, and we may be required to put in place additional mechanisms to ensure compliance with the new data protection rules. Any failure to comply with these rules and related national laws of European Union member states, could lead to government enforcement actions and significant penalties and fines against us, and could adversely affect our business, financial condition, cash flows and results of operations. Compliance with any of the foregoing laws and regulations can be costly.

Some of our operations use substances regulated under various federal, state, local and international environmental and pollution laws, including those relating to the storage, use, discharge, disposal and labeling of, and human exposure to, hazardous and toxic materials. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or require us to acquire additional expensive equipment, modify our manufacturing processes or incur other significant expenses. In addition, we could incur costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under any environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. There can be no assurance that violations of environmental laws or regulations have not occurred in the past and will not occur in the future as a result of our inability to obtain permits, human error, equipment failure or other causes, and any such violations could harm our business, financial condition, results of operations and cash flows.

We are subject to certain environmental and other regulations.

Some of our operations use substances regulated under various federal, state, local and international environmental and pollution laws, including those relating to the storage, use, discharge, disposal and labeling of, and human exposure to, hazardous and toxic materials. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or require us to acquire additional expensive equipment, modify our manufacturing processes or incur other significant expenses. In addition, we could incur costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under any environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. There can be no assurance that violations of environmental laws or regulations have not occurred in the past and will not occur in the future as a result of our inability to obtain permits, human error, equipment failure or other causes, and any such violations could harm our business, financial condition, results of operations and cash flows.

We are subject to periodic litigation and other regulatory proceedings, which could result in the unexpected expenditure of time and resources.

We are a defendant from time to time in lawsuits and regulatory actions relating to our business and to our past operations. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, such proceedings are expensive and will require that we devote substantial resources and executive time to defend, thereby diverting management's attention and resources that are needed to successfully run our business.

Public health crises could harm our business.

Public health crises, such as the outbreak of the coronavirus (COVID-19), could cause disruption to the Company's manufacturers and suppliers located in China and elsewhere. If our manufacturers and suppliers are so affected, our supply chain could be disrupted causing our product shipments to be delayed. In addition, a public health crises could negatively impact our consumer spending in impacted regions or globally, which could materially adversely affect our business, financial condition, and results of operation.

Loss of services of our key personnel could adversely affect our business.

The development of our business has been, and will continue to be, dependent on execution at all levels of our organization which requires an experienced and talented executive team. The loss of service of any of the executive officers or key employees could have an adverse effect on our business and financial condition. We have entered into employment agreements with several executive officers and key employees, and also offer compensation packages designed to attract and retain talent.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own our 24,400 square foot executive offices that are located in Nelsonville, Ohio, which are utilized by all segments. We also own our 275,200 square foot finished goods distribution facility in Logan, Ohio, which is utilized by our Wholesale and Retail segments. We also own our 52,300 square foot outlet store and a 7,200 square foot executive office building located in Nelsonville, Ohio, a portion of which is utilized by our Retail segment. We lease an office space in China consisting of 5,600 square feet which is utilized by our Wholesale and Retail segments. The current lease is set to expire in 2024. We lease two manufacturing facilities in Puerto Rico consisting of 84,600 square feet and 22,700 square feet which are utilized by the Wholesale and Military segments. These leases expired in 2019 and we are currently occupying them on a month-to-month basis until a new agreement is reached. In the Dominican Republic, we lease seven stand-alone manufacturing facilities, which are utilized by all segments, as follows:

Square Footage	Lease Expiration
16,800	2021
23,500	2023
29,700	2023
34,400	2023
20,100	2023
93,700	2024
36,200	2024

In connection with our recent acquisition of the performance and lifestyle footwear business of Honeywell International, Inc., we acquired the following real estate that will be used by our Wholesale and Retail segments:

- the lease of one manufacturing facility in Rock Island, Illinois consisting of approximately 45,000 square feet, which is set to expire in June 30, 2026;
- the lease of office space in Westwood, Massachusetts consisting of approximately 16,500 square feet, which is set to expire in December 31, 2022;
- the lease of warehouse space in Melbourne, Australia which is set to expire on March 8, 2023; and
- one owned manufacturing facility in Chuzhou, China consisting of approximately 576,600 square feet.

ITEM 3. LEGAL PROCEEDINGS.

We are, from time to time, a party to litigation which arises in the normal course of our business. Although the ultimate resolution of pending proceedings cannot be determined, in the opinion of management, the resolution of these proceedings in the aggregate will not have a material adverse effect on our financial position, results of operations, or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Market Information**

Our common stock trades on the NASDAQ Global Select Market under the symbol "RCKY."

As of February 28, 2021, there were 71 shareholders of record of our common stock.

Dividends

During 2013, our Board of Directors adopted a dividend policy under which the Company intends to pay a cash dividend on its common stock.

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

Period	Total number of shares (or units) purchased (1)	Average price paid per share (or units)	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (2)
October 1, 2020 - October 31, 2020	37,564	24.85	\$ 4,561,969
November 1, 2020 - November 30, 2020	-	-	4,561,969
December 1, 2020 - December 31, 2020	-	-	4,561,969
Total	37,564	24.85	\$ 4,561,969

(1) The reported shares were repurchased pursuant to the Company's stock repurchase authorization which was publicly announced on March 2, 2020 approving up to \$7,500,000 for share repurchases and expiring on February 27, 2021.

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

On March 8, 2021, we announced a new \$7,500,000 share repurchase program that will terminate on March 4, 2022. This program is replacing the \$7,500,000 share repurchase program that was announced on March 2, 2020, which expired on February 27, 2021.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.**ROCKY BRANDS, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA**

(\$ in thousands, except for per share data)

	For the years ended December 31,				
	2020	2019	2018	2017	2016
Income statement data					
Net sales	\$ 277,309	\$ 270,408	\$ 252,694	\$ 253,197	\$ 260,259
Gross margin (% of sales)	37.8%	36.1%	34.4%	31.9%	29.5%
Net income (loss)	\$ 20,964	\$ 17,462	\$ 14,553	\$ 9,586	\$ (2,139)
Dividends paid on common stock	4,093	3,987	3,484	3,269	3,297
Earnings per share					
Net income (loss)					
Basic	\$ 2.87	\$ 2.36	\$ 1.96	\$ 1.29	\$ (0.29)
Diluted	2.86	2.35	1.95	1.29	(0.29)
Weighted average common shares outstanding					
Basic	7,304	7,387	7,412	7,428	7,505
Diluted	7,337	7,439	7,462	7,450	7,505
Balance sheet data					
Inventory	\$ 77,576	\$ 76,731	\$ 72,822	\$ 65,622	\$ 69,168
Total assets	\$ 229,091	\$ 205,826	\$ 184,663	\$ 173,479	\$ 178,939
Working capital	\$ 123,203	\$ 114,592	\$ 106,167	\$ 99,159	\$ 101,060
Long-term debt, less current maturities	\$ -	\$ -	\$ -	\$ 2,199	\$ 14,584
Shareholders' equity	\$ 179,505	\$ 164,656	\$ 151,575	\$ 141,093	\$ 135,093

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") describes the matters that we consider to be important to understanding the results of our operations for each of the two years in the period ended December 31, 2020 and 2019, and our capital resources and liquidity as of December 31, 2020 and 2019. Use of the terms "Rocky," the "Company," "we," "us" and "our" in this discussion refer to Rocky Brands, Inc. and its subsidiaries. Our fiscal year begins on January 1 and ends on December 31. We analyze the results of our operations for the last two years, including the trends in the overall business followed by a discussion of our cash flows and liquidity, our credit facility, and contractual commitments. We then provide a review of the critical accounting judgments and estimates that we have made that we believe are most important to an understanding of our MD&A and our consolidated financial statements. We conclude our MD&A with information on recent accounting pronouncements which we adopted during the year, as well as those not yet adopted that are expected to have an impact on our financial accounting practices.

The following discussion should be read in conjunction with the "Selected Consolidated Financial Data" and our consolidated financial statements and the notes thereto, all included elsewhere herein. The forward-looking statements in this section and other parts of this document involve risks and uncertainties including statements regarding our plans, objectives, goals, strategies, and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under the caption "Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995" below. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of the Company.

EXECUTIVE OVERVIEW

We are a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky, Georgia Boot, Durango, Lehigh, and the licensed brand Michelin. In addition, on March 15, 2021, we closed on our acquisition of the performance and lifestyle footwear business of Honeywell International, Inc., which expanded our brand portfolio to include The Original Muck Boot Company, XTRATUF, Servus, NEOS and Ranger brands.

Our products are distributed through three distinct business segments: Wholesale, Retail and Military. In our Wholesale business, we distribute our products through a wide range of distribution channels representing over 10,000 retail store locations in the U.S. and Canada as well as in several international markets. Our Wholesale channels vary by product line and include sporting goods stores, outdoor retailers, independent shoe retailers, hardware stores, catalogs, mass merchants, uniform stores, farm store chains, specialty safety stores, specialty retailers and online retailers. Our Retail business includes direct sales of our products to consumers through our business to business web platform, e-commerce websites, third party marketplaces and our Rocky outlet store. We also sell footwear under the Rocky label to the U.S. military.

Our growth strategy is founded substantially on the expansion of our brands into new footwear and apparel markets. New products that we introduce may not be successful with consumers or one or more of our brands may fall out of favor with consumers. If we are unable to anticipate, identify or react appropriately to changes in consumer preferences, we may not grow as fast as we plan to grow or our sales may decline, and our brand image and operating performance may suffer.

Furthermore, achieving market acceptance for new products will likely require us to exert substantial product development and marketing efforts, which could result in a material increase in our operating expenses and there can be no assurance that we will have the resources necessary to undertake such efforts. Material increases in our operating expenses could adversely impact our results of operations and cash flows.

We may also encounter difficulties in producing new products that we did not anticipate during the development stage. Our development schedules for new products are difficult to predict and are subject to change as a result of shifting priorities in response to consumer preferences and competing products. If we are not able to efficiently manufacture newly-developed products in quantities sufficient to support retail distribution, we may not be able to recoup our investment in the development of new products. Failure to gain market acceptance for new products that we introduce could impede our growth, reduce our profits, adversely affect the image of our brands, erode our competitive position and result in long term harm to our business.

The impact of COVID-19 and the related economic, business and market disruptions were wide-ranging. These impacts have had and may continue to cause disruptions from both a manufacturing and distribution standpoint. As a result of COVID-19, we were required to temporarily close our manufacturing facilities in both the Dominican Republic and Puerto Rico for several weeks spanning through both the first and second quarters of 2020. In response to COVID-19, we have incurred incremental costs associated with protecting the health and safety of our global workforce, enhanced sanitization of our global operating facilities, and information technology capabilities for employees operating remotely. Beginning in March 2020, restrictions imposed by various governmental authorities on both domestic and international shipping and travel have caused a disruption to the timing of delivery of raw materials and finished goods resulting in negative impacts to our financial position, results of operations and cash flows. The duration and severity of the outbreak and its long-term impact on our business are uncertain at this time. We are unable to predict the impact that COVID-19 will have on our future financial position, results of operations and cash flows.

Net sales. Net sales and related cost of goods sold are recognized at the time products are shipped to the customer and title transfers. Net sales are recorded net of estimated sales discounts and returns based upon specific customer agreements and historical trends. Net sales include royalty income from licensing our brands.

Cost of goods sold. Our cost of goods sold represents our costs to manufacture products in our own facilities, including raw materials costs and all overhead expenses related to production, as well as the cost to purchase finished products from our third-party manufacturers. Cost of goods sold also includes the cost to transport these products to our distribution center.

[Table of Contents](#)

Operating expenses. Our operating expenses consist primarily of selling, marketing, wages and related payroll and employee benefit costs, travel and insurance expenses, depreciation, amortization, professional fees, software licensing fees, facility expenses, bank charges, warehouse and outbound freight expenses.

Percentage of Net Sales

The following table sets forth consolidated statements of operations data as percentages of total net sales:

	Twelve Months Ended December 31,	
	2020	2019
Net sales	100.0%	100.0%
Cost of goods sold	62.2	63.9
Gross margin	37.8	36.1
Operating expenses	28.0	28.0
Income from operations	9.8%	8.1%

Results of Operations**December 31, 2020 Compared to Year Ended December 31, 2019**

(\$ in thousands)	Twelve Months Ended December 31,			
	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
NET SALES:				
Wholesale	\$ 185,554	\$ 179,519	\$ 6,035	3.4%
Retail	72,877	64,824	8,053	12.4
Military	18,878	26,065	(7,187)	(27.6)
Total Net Sales	<u>\$ 277,309</u>	<u>\$ 270,408</u>	<u>\$ 6,901</u>	<u>2.6%</u>

Wholesale sales increased due to a strong demand for our products as consumers continued to respond favorably to our recent product introductions. We were also able to capitalize on a strong inventory position as the economy reopened and consumers returned to shopping at brick and mortar retail.

Retail sales increased primarily due to strong growth in our direct to consumer e-Commerce and marketplace businesses. We have increased our targeted marketing efforts and brand awareness, which has led to increased traffic on our branded websites. We have also continued to expand our direct to consumer efforts on marketplaces, such as Amazon and eBay. Fiscal year 2020 was our first full year of having Seller Fulfilled Prime status, which made our entire catalog "Prime Eligible".

[Table of Contents](#)

Military sales decreased slightly, as expected, due to the recent expiration of some multi-year contracts.

(\$ in thousands)	Twelve Months Ended December 31,		
	2020	2019	Inc./ (Dec.)
GROSS MARGIN:			
Wholesale Margin \$'s	\$ 66,336	\$ 61,133	\$ 5,203
Margin %	35.8%	34.1%	1.7%
Retail Margin \$'s	\$ 34,283	\$ 28,941	\$ 5,342
Margin %	47.0%	44.6%	2.4%
Military Margin \$'s	\$ 4,116	\$ 7,611	\$ (3,495)
Margin %	21.8%	29.2%	-7.4%
Total Margin \$'s	\$ 104,735	\$ 97,685	\$ 7,050
Margin %	37.8%	36.1%	1.6%

Wholesale gross margin increased primarily due to our dedicated focus to increasing full price selling by offering less discounts while maintaining stronger initial margins on some of our newer products and increased efficiencies at our manufacturing facilities.

Retail gross margins increased primarily due to an increase in direct to consumer sales which carry a higher margin and a decrease in certain Lehigh sales which carry lower margins.

Military gross margin decreased year-over-year due to adjustments related to the overhead, payroll expenses and supplies incurred during the temporary closure of our manufacturing facilities due to the COVID-19 pandemic. These expenses were partially offset by the employee retention credit tied to the CARES Act of 2020. The net effect of these closure related expenses and employee retention credits was approximately \$654,000. Adjusting for the previously mentioned expenses and credits, our 2020 military margins would have been 25.3%. In 2019, margins included a \$581,000 one-time expense reimbursement to our Puerto Rico facility associated with the temporary closure as a result of Hurricane Maria in 2017. Excluding the one-time reimbursement, gross margins would have been 27.0%.

(\$ in thousands)	Twelve Months Ended December 31,		
	2020	2019	Inc./ (Dec.)
OPERATING EXPENSES:			
Operating Expenses	\$ 77,565	\$ 75,600	\$ 1,965
% of Net Sales	28.0%	28.0%	0.0%

Operating expenses increased year-over-year as we continued to invest in our core brands to help initiate growth and expand within our respective markets and invest in personnel to continue to drive operational excellence throughout our organization. We also experienced an increase in variable expenses such as commissions, freight and third party platform fees associated with an increase in Wholesale and Retail sales. These increases were partially offset with a decrease in certain expenses due to the COVID-19 pandemic, such as travel and tradeshow.

(\$ in thousands)	Twelve Months Ended December 31,		
	2020	2019	Inc./ (Dec.)
OTHER EXPENSES:			
Other (Expense) Income	\$ (205)	\$ 146	\$ (351)

Other expenses increased due to higher interest expense from borrowing against our credit facility in the second quarter of 2020 and unfavorable currency exchange rates from our Canadian business. Interest rates on our cash and cash equivalents have also declined in 2020.

(\$ in thousands)	Twelve Months Ended December 31,			
	2020	2019	Inc./ (Dec.)	Inc./ (Dec.)
INCOME TAXES:				
Income Tax Expense	\$ 6,001	\$ 4,769	\$ 1,232	25.8%
Effective Tax Rate	22.3%	21.5%	0.8%	

The effective tax rate for 2020 increased due to additional state taxing authorities requiring unitary filings and additional share-based compensation not deductible for tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Over the last several years our principal uses of cash have been for working capital and capital expenditures to support our growth as well as dividend payments and share repurchases. Our working capital consists primarily of trade receivables and inventory, offset by accounts payable and accrued expenses. Our working capital fluctuates throughout the year as a result of our seasonal business cycle and business expansion and is generally lowest in the months of January through March of each year and highest during the months of May through October of each year. We historically utilize our revolving credit facility to fund our seasonal working capital requirements. As a result, balances on our revolving credit facility could fluctuate significantly throughout the year. Our working capital increased to \$123.2 million at December 31, 2020, compared to \$114.6 million at the end of the prior year.

Our capital expenditures relate primarily to projects relating to our corporate offices, property, merchandising fixtures, molds and equipment associated with our manufacturing and distribution operations and for information technology. Capital expenditures were \$11.6 million for 2020 and \$9.5 million in 2019. Capital expenditures for 2021 are anticipated to be approximately \$9.5 million.

We lease certain machinery, equipment, and manufacturing facilities under operating leases that generally provide for renewal options. Future minimum lease payments under non-cancelable operating leases are outlined in further detail in [Note 8](#).

In connection with our recent acquisition of the performance and lifestyle footwear business of Honeywell International, Inc. (Honeywell), we incurred approximately \$705,000 of transaction related expenses for the year ended December 31, 2020, which are included in operating expenses in the consolidated statement of operations. From the period January 1, 2021 to March 15, 2021, we incurred approximately \$4.5 million of transaction related costs. We expect to incur additional integration and post-close related expenses after the date of these financial statements that cannot be quantified at this time.

We believe that our credit facility coupled with cash generated from operations will provide sufficient liquidity to fund our operations for at least the next twelve months. Our continued liquidity, however, is contingent upon future operating performance, cash flows and our ability to meet financial covenants under our credit facility. For more information regarding our credit facility please see [Note 7](#). Refer to [Note 19](#) for additional information regarding our recent acquisition.

Cash Flows

(\$ in millions)	Twelve Months Ended December 31,			
	2020		2019	
Operating activities	\$	31.4	\$	18.0
Investing activities		(11.7)		(7.7)
Financing activities		(6.9)		(5.0)
Net change in cash and cash equivalents	\$	12.8	\$	5.3

Operating Activities. The principal sources of net cash in 2020 and 2019 included increases to accounts payable and accrued liabilities. These sources of net cash were partially offset by an increase in trade receivables and inventories.

Investing Activities. The principal uses of cash in 2020 and 2019 were related to investments in molds and equipment associated with our manufacturing operations, investments in information technology and improvements made to our distribution facility.

[Table of Contents](#)

Financing Activities. Our financing activities during 2020 and 2019 principally were payments of dividends, proceeds from stock option issuances and repurchases of our common stock.

On March 8, 2021, we announced a new \$7,500,000 share repurchase program that will replace the 2020 plan and will expire on March 4, 2022. Management could decide to repurchase additional shares under the current program up through the date of expiration of the program. For additional information regarding this share repurchase program see [Note 11](#).

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations at December 31, 2020 resulting from financial contracts and commitments. We have not included information on our recurring purchases of materials for use in our manufacturing operations. These amounts are generally consistent from year to year, closely reflect our levels of production, and are not long-term in nature (less than three months).

Contractual Obligations at December 31, 2020:

(\$ in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Long-term debt (Note 7)	-	-	-	-	-
Long-Term Taxes payable	\$ 0.2	-	-	-	\$ 0.2
Minimum operating lease commitments (Note 8)	1.7	\$ 0.7	\$ 1.0	\$ 0.0	-
Expected cash requirements for credit facility ⁽¹⁾	0.4	0.1	0.3	-	-
Contract Liabilities (Note 14)	5.6	5.6	-	-	-
Consulting commitments	1.3	1.3	-	-	-
Total contractual obligations	<u>\$ 9.1</u>	<u>\$ 6.8</u>	<u>\$ 2.0</u>	<u>\$ 0.4</u>	<u>\$ 0.2</u>

(1) Expected payments are approximately \$0.1 million per year for the foreseeable future and are a fee on the unused portion of our credit facility.

From time to time, we enter into purchase commitments with our suppliers under customary purchase order terms. Any significant losses implicit in these contracts would be recognized in accordance with generally accepted accounting principles. At December 31, 2020, no such losses existed.

In connection with our recent acquisition of the performance and lifestyle footwear business of Honeywell, Honeywell will provide certain services to us under the Transition Service Agreement (TSA). The costs associated with the TSA are both fixed and variable. We expect these costs to decline over time as we integrate the businesses.

Our ongoing business activities continue to be subject to compliance with various laws, rules and regulations as may be issued and enforced by various federal, state and local agencies. With respect to environmental matters, costs are incurred pertaining to regulatory compliance. Such costs have not been, and are not anticipated to become, material.

We are contingently liable with respect to lawsuits, taxes and various other matters that routinely arise in the normal course of business. We do not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities, also known as "Variable Interest Entities." Additionally, we do not have any related party transactions that materially affect the results of operations, cash flow or financial condition.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements as of December 31, 2020.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Consolidated Financial Statements are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to establish accounting policies and make estimates that affect amounts reported in our Consolidated Financial Statements. [Note 1](#) of the Notes to Consolidated Financial Statements, which is incorporated by reference into this MD&A, describes the significant accounting policies we use in our Consolidated Financial Statements.

[Table of Contents](#)

An accounting estimate requires assumptions and judgments about uncertain matters that could have a material effect on the Consolidated Financial Statements. Estimates are made under facts and circumstances at a point in time, and changes in those facts and circumstances could produce results substantially different from those estimates. The most significant accounting policies and estimates and their related application are discussed below.

Revenue recognition

Revenue principally consists of sales to customers, and, to a lesser extent, license fees. See [Note 14](#) for additional information regarding revenues.

Accounts receivable allowances

Management maintains allowances for uncollectible accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The allowance for uncollectible accounts is calculated based on the relative age and status of trade receivable balances.

Sales returns and allowances

We record a reduction to gross sales based on estimated customer returns and allowances. These reductions are influenced by historical experience, based on customer returns and allowances. The actual amount of sales returns and allowances realized may differ from our estimates. If we determine that sales returns or allowances should be either increased or decreased, then the adjustment would be made to net sales in the period in which such a determination is made.

Sales returns and allowances as a percentage of sales for the years below were as follows:

	2020	2019
Sales, returns, and allowances	4.8%	4.1%

Inventories

Management identifies slow moving inventories and estimates appropriate loss provisions related to these inventories. Historically, these loss provisions have not been significant as the vast majority of our inventories are considered saleable and we have been able to liquidate slow moving or obsolete inventories at amounts above cost through our factory outlet stores or through various discounts to customers and e-commerce channels. Should management encounter difficulties liquidating slow moving or obsolete inventories, additional provisions may be necessary. Management regularly reviews the adequacy of our inventory reserves and makes adjustments as required. See [Note 3](#) for additional information regarding inventories.

Intangible assets

Intangible assets, including trademarks and patents, are reviewed for impairment annually, and more frequently, if necessary. We perform such testing of indefinite-lived intangible assets in the fourth quarter of each year or as events occur or circumstances change that would more likely than not reduce the fair value of the asset below its carrying amount. See [Note 5](#) for additional information regarding intangible assets and the annual impairment analysis.

Income taxes

Management has recorded a valuation allowance to reduce its deferred tax assets for a portion of state and local income tax net operating losses that it believes may not be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, however, in the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. For additional information see [Note 10](#).

RECENT FINANCIAL ACCOUNTING PRONOUNCEMENTS

[Note 2](#) to Consolidated Financial Statements discusses new accounting pronouncements adopted during 2020 and the expected impact of accounting pronouncements recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affect financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section of this MD&A and the Notes to Consolidated Financial Statements.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

In the normal course of business, the Company's financial position and results of operations are routinely subject to a variety of risks, including market risk associated with interest rate movements on borrowings and currency rate movements on non-U.S. dollar denominated assets, liabilities and cash flows. The Company is also subject to commodity pricing risk via changes in the price of materials used in our manufacturing process. The Company regularly assesses these risks and has established policies and business practices that should mitigate a portion of the adverse effect of these and other potential exposures.

Interest Rate Risk

Our primary market risk results from fluctuations in interest rates. The following item is market rate sensitive for interest rates for the Company: long-term debt consisting of a credit facility with no outstanding balance at December 31, 2020. For additional information about our 2020 credit facility see [Note 7](#). In March 2021, we entered into two new credit facilities as a result of the recently closed acquisition of the performance and lifestyle footwear business of Honeywell International, Inc. See [Note 19](#) for additional information. We have no other long-term debt maturities.

We do not hold any market risk sensitive instruments for trading purposes.

We do not have any interest rate management agreements as of December 31, 2020.

Commodity Risk

We are also exposed to changes in the price of commodities used in our manufacturing operations. However, commodity price risk related to the Company's current commodities is not material as price changes in commodities can generally be passed along to the customer.

Foreign Exchange Risk

The Company faces market risk to the extent that changes in foreign currency exchange rates affect the Company's foreign assets, liabilities and inventory purchase commitments. The Company manages these risks by attempting to denominate contractual and other foreign arrangements in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

ROCKY BRANDS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Description	Page
Report of Independent Registered Public Accounting Firm	28
Consolidated Balance Sheets as of December 31, 2020 and 2019	30
Consolidated Statements of Operations for the Years Ended December 31, 2020 and 2019	31
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2020 and 2019	32
Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019	33
Note 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION	34
Note 2. ACCOUNTING STANDARDS UPDATES	36
Note 3. INVENTORIES	37
Note 4. PROPERTY, PLANT, AND EQUIPMENT	37
Note 5. IDENTIFIED INTANGIBLE ASSETS	38
Note 6. OTHER ASSETS	39
Note 7. LONG-TERM DEBT	39
Note 8. LEASES	40
Note 9. BENEFIT PLAN	42
Note 10. TAXES	42
Note 11. SHAREHOLDERS' EQUITY	45
Note 12. SHARE-BASED COMPENSATION	45
Note 13. EARNINGS PER SHARE	46
Note 14. REVENUE	47
Note 15. SUPPLEMENTAL CASH FLOW INFORMATION	49
Note 16. SEGMENT INFORMATION	49
Note 17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)	50
Note 18. COMMITMENTS AND CONTINGENCIES	50
Note 19. SUBSEQUENT EVENTS	49

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Rocky Brands, Inc. and Subsidiaries
Nelsonville, Ohio

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Rocky Brands, Inc. and Subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes and the financial statement schedule listed in the index at Item 15(a)(2), (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2021 expressed an unqualified opinion.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involve our especially challenging, subjective, or complex judgment.

The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Indefinite-Lived Identified Intangibles

Description of the Matter

At December 31, 2020, the Company's indefinite-lived intangible assets were approximately \$30.2 million. As discussed in Note 1 to the financial statements, indefinite-lived intangible assets are tested for potential impairment annually or when conditions indicate impairment may have occurred. This test was performed in the fourth quarter of 2020.

Auditing management's indefinite-lived intangible assets was challenging because there is significant judgment required in determining the methodologies and assumptions used to estimate the fair values of the Company's trade names and trademarks. In particular, the fair value estimates were sensitive to significant judgment assumptions including future cash flows, long-term growth rates of the business, operating margins, weighted average cost of capital and other factors such as; discount rates, royalty rates, cost of capital, and market multiples. These estimates and assumptions require management's judgment, and changes to these estimates and assumptions could materially affect the determination of fair value and/or impairment for each of the Company's indefinite-lived intangible assets.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's intangible asset impairment review process. To test the estimated fair value of the Indefinite-Lived Intangible Assets, we performed audit procedures that included, among others, involving our valuation specialists in evaluating the methodologies used and significant assumptions described above, and testing the underlying data used by the Company in its analysis for completeness and accuracy. We compared the significant assumptions used by management to current industry and economic trends, recent historical performance, changes to the reporting unit's business model and other relevant factors. We performed a sensitivity analysis over the Company's financial projections used in the analysis. We assessed the historical accuracy of management's estimates and significant assumptions to evaluate the changes in the fair value of the reporting unit that would result from changes in the assumptions. We evaluated the incorporation of the applicable assumptions into the model and tested the model's computational accuracy.

We have served as the Company's auditor since 2007

/s/ Schneider Downs & Co., Inc.
Columbus, Ohio
March 16, 2021

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

	December 31, 2020	December 31, 2019
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,353	\$ 15,518
Trade receivables – net	48,010	45,585
Contract receivables	5,170	4,746
Other receivables	364	366
Inventories – net	77,576	76,731
Income tax receivable	-	150
Prepaid expenses	3,713	3,030
Total current assets	163,186	146,126
LEASED ASSETS	1,572	1,743
PROPERTY, PLANT & EQUIPMENT – net	33,750	27,423
IDENTIFIED INTANGIBLES – net	30,209	30,240
OTHER ASSETS	374	294
TOTAL ASSETS	\$ 229,091	\$ 205,826
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	20,090	15,776
Contract liabilities	5,582	4,746
Accrued expenses:		
Salaries and wages	4,463	3,044
Taxes - other	893	967
Accrued freight	911	867
Commissions	712	608
Accrued duty	4,270	3,824
Income tax payable	1,019	-
Other	2,043	1,702
Total current liabilities	39,983	31,534
LONG-TERM TAXES PAYABLE	169	169
LONG-TERM LEASE	944	1,158
DEFERRED INCOME TAXES	8,271	8,108
DEFERRED LIABILITIES	219	201
TOTAL LIABILITIES	49,586	41,170
SHAREHOLDERS' EQUITY:		
Common stock, no par value;		
25,000,000 shares authorized; issued and outstanding December 31, 2020 -7,247,631; December 31, 2019 -		
7,354,970	65,971	67,993
Retained earnings	113,534	96,663
Total shareholders' equity	179,505	164,656
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 229,091	\$ 205,826

See notes to consolidated financial statements

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

	Twelve Months Ended December 31,	
	2020	2019
NET SALES	\$ 277,309	\$ 270,408
COST OF GOODS SOLD	172,574	172,723
GROSS MARGIN	104,735	97,685
OPERATING EXPENSES	77,565	75,600
INCOME FROM OPERATIONS	27,170	22,085
OTHER (EXPENSES) INCOME	(205)	146
INCOME BEFORE INCOME TAXES	26,965	22,231
INCOME TAX EXPENSE	6,001	4,769
NET INCOME	<u>\$ 20,964</u>	<u>\$ 17,462</u>
INCOME PER SHARE		
Basic	\$ 2.87	\$ 2.36
Diluted	\$ 2.86	\$ 2.35
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	<u>7,304</u>	<u>7,387</u>
Diluted	<u>7,337</u>	<u>7,439</u>

See notes to consolidated financial statements

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

	Common Stock and Additional Paid-in Shares	Capital Amount	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
	Outstanding				
BALANCE - December 31, 2018	7,368	\$ 68,387	\$ -	\$ 83,188	\$ 151,575
TWELVE MONTHS ENDED DECEMBER 31, 2019					
Net income				\$ 17,462	\$ 17,462
Dividends paid on common stock (\$0.54 per share) ⁽¹⁾				(3,987)	(3,987)
Repurchase of common stock	(54)	\$ (1,500)			(1,500)
Stock issued for options exercised, including tax benefits	28	444			444
Stock compensation expense	13	662			662
BALANCE - December 31, 2019	7,355	\$ 67,993	\$ -	\$ 96,663	\$ 164,656
TWELVE MONTHS ENDED DECEMBER 31, 2020					
Net income				\$ 20,964	\$ 20,964
Dividends paid on common stock (\$0.56 per share)				(4,093)	(4,093)
Repurchase of common stock	(129)	\$ (2,938)			(2,938)
Stock issued for options exercised, including tax benefits	8	136			136
Stock compensation expense	14	780			780
BALANCE - December 31, 2020	7,248	\$ 65,971	\$ -	\$ 113,534	\$ 179,505

(1) Dividend was increased from \$0.12 per share to \$0.14 per share in the second quarter of 2019

See notes to consolidated financial statements

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

	Twelve Months Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 20,964	\$ 17,462
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,240	5,037
Deferred income taxes	164	328
Loss on disposal of fixed assets	28	108
Stock compensation expense	780	662
Change in assets and liabilities:		
Receivables	(2,697)	(4,547)
Inventories	(845)	(3,909)
Other current assets	(993)	(4,302)
Other assets	(80)	(145)
Accounts payable	4,459	456
Accrued and other liabilities	3,402	6,938
Income taxes payable	1,019	-
Net cash provided by operating activities	<u>31,441</u>	<u>18,088</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(11,716)	(7,719)
Proceeds from sales of fixed assets	5	19
Net cash used in investing activities	<u>(11,711)</u>	<u>(7,700)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	20,000	-
Repayments on revolving credit facility	(20,000)	-
Proceeds from stock options	136	444
Repurchase of common stock	(2,938)	(1,500)
Dividends paid on common stock	(4,093)	(3,987)
Net cash used in financing activities	<u>(6,895)</u>	<u>(5,043)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	12,835	5,345
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD	15,518	10,173
END OF PERIOD	<u>\$ 28,353</u>	<u>\$ 15,518</u>

See notes to consolidated financial statements

ROCKY BRANDS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2020 and 2019

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Rocky Brands, Inc. (“Rocky”) and its wholly-owned subsidiaries, Lifestyle Footwear, Inc. (“Lifestyle”), Five Star Enterprises Ltd. (“Five Star”), Rocky Brands Canada, Inc. (“Rocky Canada”), Rocky Brands US, LLC, Rocky Brands International, LLC, Lehigh Outfitters, LLC, and Rocky Outdoor Gear Store, LLC (collectively referred to as the “Company”). All inter-company transactions have been eliminated.

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

Our products are distributed through three distinct business segments: Wholesale, Retail and Military. In our Wholesale business, we distribute our products through a wide range of distribution channels representing over 10,000 retail store locations in the U.S. and Canada. Our Wholesale channels vary by product line and include sporting goods stores, outdoor retailers, independent shoe retailers, hardware stores, catalogs, mass merchants, uniform stores, farm store chains, specialty safety stores, specialty retailers and online retailers. Our Retail business includes direct sales of our products to consumers through our business to business web-platform, e-commerce websites, third-party marketplaces, and our Rocky outlet store. We also sell footwear under the Rocky label to the U.S. military.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Balances may exceed federally insured limits.

Trade Receivables - Trade receivables are presented net of the related allowance for uncollectible accounts of approximately \$42,000 and \$952,000 at December 31, 2020 and 2019, respectively. The Company records the allowance based on historical experience, the age of the receivables, and identification of customer accounts that are likely to prove difficult to collect due to various criteria including pending bankruptcy. However, estimates of the allowance in any future period are inherently uncertain and actual allowances may differ from these estimates. If actual or expected future allowances were significantly greater or less than established reserves, a reduction or increase to bad debt expense would be recorded in the period this determination was made. Our credit policy generally provides that trade receivables will be deemed uncollectible and written-off once we have pursued all reasonable efforts to collect on the account. In accordance with ASC 606, the return reserve liability netted against trade receivables was \$1,348,000 and \$1,050,000 at December 31, 2020 and 2019, respectively.

Concentration of Credit Risk - We have significant transactions with a large number of customers. No customer represented 10% of trade receivables - net as of December 31, 2020 and 2019. Our exposure to credit risk is impacted by the economic climate affecting the retail shoe industry. We manage this risk by performing ongoing credit evaluations of our customers, maintaining reserves for potential uncollectible accounts and utilizing credit insurance for some of our key customers.

Supplier and Labor Concentrations - We purchase raw materials from a number of domestic and foreign sources. We produce a portion of our shoes and boots in our Dominican Republic operation and in our Puerto Rico operation. We are not aware of any governmental or economic restrictions that would alter these current operations.

We source a significant portion of our footwear, apparel and gloves from manufacturers in Asia, primarily China. We are not aware of any governmental or economic restrictions that would alter our current sourcing operations.

Inventories - Inventories are valued at the lower of cost, determined on a first-in, first-out (FIFO) basis, or net realizable value. Reserves are established for inventories when the net realizable value (NRV) is deemed to be less than its cost based on our periodic estimates of NRV.

Property, Plant and Equipment - The Company records fixed assets at historical cost and generally utilizes the straight-line method of computing depreciation for financial reporting purposes over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	5 - 40
Machinery and equipment	3 - 8
Furniture and fixtures	3 - 8
Lasts, dies, and patterns	3

For income tax purposes, the Company generally computes depreciation utilizing accelerated methods.

Identified intangible assets - Identified intangible assets consist of indefinite lived trademarks and definite lived trademarks, and patents. Indefinite lived intangible assets are not amortized.

If events or circumstances change, a determination is made by management, in accordance with the accounting standard for "Property, Plant and Equipment" to ascertain whether property, equipment and certain finite-lived intangibles have been impaired based on the sum of expected future undiscounted cash flows from operating activities. If the estimated net cash flows are less than the carrying amount of such assets, we will recognize an impairment loss in an amount necessary to write down the assets to fair value as determined from expected future discounted cash flows.

In accordance with the accounting standard for "Intangibles – Goodwill and Other", we test intangible assets with indefinite lives for impairment annually or when conditions indicate impairment may have occurred. We perform such testing of our indefinite-lived intangible assets in the fourth quarter of each year or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. See [Note 5](#) for more information.

Comprehensive Income - Comprehensive income includes changes in equity that result from transactions and economic events from non-core operations. Comprehensive income is composed of two subsets – net income and other comprehensive income. There were no material other comprehensive income items therefore no Statements of Comprehensive Income were presented.

Advertising - We expense advertising costs as incurred. Advertising expense was approximately \$8,406,000 and \$8,106,000 for 2020 and 2019, respectively.

Shipping Costs - All shipping costs billed to customers have been included in net sales. All outbound shipping costs to customers have been included in operating expenses and totaled approximately \$10,523,000 and \$10,641,000 in 2020 and 2019, respectively.

Fair Value Measurements – The fair value accounting standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard clarifies how to measure fair value as permitted under other accounting pronouncements.

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

Deferred Compensation Plan Assets and Liabilities

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

2. ACCOUNTING STANDARDS UPDATES

Recently Issued Accounting Pronouncements

Rocky Brands, Inc. is currently evaluating the impact of certain ASUs on its Consolidated Financial Statements or Notes to the Consolidated Financial Statements:

Standard	Description	Anticipated Adoption Period	Effect on the financial statements or other significant matters
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	The pronouncement seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	Q1 2023 as long as we continue to qualify as a smaller reporting company	We are evaluating the impacts of the new standard on our existing financial instruments, including trade receivables.
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	This pronouncement is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application.	Q1 2021	We are evaluating the impacts of the new standard on our Consolidated Financial Statements but do not anticipate it will have a material impact.

Accounting Standards Adopted in the Current Year

Standard	Description	Effect on the financial statements or other significant matters
ASU 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	This pronouncement changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements.	We adopted the new standard in Q1 2020 and the standard did not have a significant impact on our Consolidated Financial Statements.

3. INVENTORIES

Inventories are comprised of the following:

(\$ in thousands)	December 31, 2020	December 31, 2019
Raw materials	\$ 12,875	\$ 12,466
Work-in-process	1,128	856
Finished goods	63,573	63,409
Total	<u>\$ 77,576</u>	<u>\$ 76,731</u>

In accordance with ASC 606, the returns reserve asset included within inventories was approximately \$744,000 at December 31, 2020. The returns reserve was \$613,000 as of December 31, 2019.

4. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is comprised of the following:

(\$ in thousands)	December 31, 2020	December 31, 2019
Land	956	956
Buildings	27,596	20,810
Machinery and equipment	44,472	41,727
Furniture and fixtures	2,109	2,577
Lasts, dies and patterns	10,833	11,596
Construction work-in-progress	5,849	6,265
Total	91,815	83,931
Less - accumulated depreciation	(58,065)	(56,508)
Net Fixed Assets	<u>33,750</u>	<u>27,423</u>

We incurred approximately \$5.2 million and \$5.0 million in depreciation expense for 2020 and 2019, respectively.

5. IDENTIFIED INTANGIBLE ASSETS

A schedule of identified intangible assets is as follows:

(\$ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
December 31, 2020			
Trademarks			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 778	117
Total Intangibles	<u>\$ 30,987</u>	<u>\$ 778</u>	<u>\$ 30,209</u>
	Gross Amount	Accumulated Amortization	Carrying Amount
December 31, 2019			
Trademarks			
Wholesale	\$ 27,192	-	\$ 27,192
Retail	2,900	-	2,900
Patents	895	\$ 747	148
Total Intangibles	<u>\$ 30,987</u>	<u>\$ 747</u>	<u>\$ 30,240</u>

The weighted average remaining life for our patents is 3.4 years.

A schedule of approximate actual and expected amortization expense related to finite-lived intangible assets is as follows:

	(\$ in thousands)	Amortization Expense
	2019	\$ 33
	2020	31
	2021	26
	2022	22
	2023	20
	2024	17
	2025	12
	2026+	20

Intangible assets, including trademarks and patents are reviewed for impairment annually, and more frequently, if necessary. We perform such testing of indefinite-lived intangible assets in the fourth quarter of each year or as events occur or circumstances change that would more likely than not reduce the fair value of the asset below its carrying amount. Fair value of other indefinite-lived intangible assets is determined using the relief from royalty method.

In assessing whether indefinite-lived intangible assets are impaired, we must make certain estimates and assumptions regarding future cash flows, long-term growth rates of our business, operating margins, weighted average cost of capital and other factors such as; discount rates, royalty rates, cost of capital, and market multiples to determine the fair value of our assets. These estimates and assumptions require management's judgment, and changes to these estimates and assumptions could materially affect the determination of fair value and/or impairment for each of our indefinite-lived intangible assets. Future events could cause us to conclude that indications of intangible asset impairment exist. Impairment may result from, among other things, deterioration in the performance of our business, adverse market conditions, adverse changes in applicable laws and regulations, competition, or the sale or disposition of a reporting segment. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

2020 and 2019 Impairment Testing

We evaluate our finite and indefinite lived trademarks under the terms and provisions of the accounting standards for “Intangibles - Goodwill and Other”; and “Property, Plant and Equipment.” These pronouncements require that we compare the fair value of an intangible asset with its carrying amount. The results of our 2020 and 2019 indefinite-lived intangible impairment testing indicated that all reporting unit intangible asset fair values exceed their respective carrying values.

6. OTHER ASSETS

Other assets consist of the following:

(\$ in thousands)	December 31, 2020	December 31, 2019
Deferred financing costs, net	\$ 109	\$ 143
Other	265	151
Total	\$ 374	\$ 294

In February 2019, we deferred financing costs of approximately \$174,000 related to the new credit agreement with Huntington National Bank that will be amortized over the life of the loan.

7. LONG-TERM DEBT

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

Revolver Pricing Level	Average Excess Revolver Availability for Previous Quarter	Applicable Spread Rates for Eurodollar Rate Revolving Advances	Applicable Spread Rates for Domestic Rate Revolving Advances
I	\$25,000,000+	1.00%	0.50%
II	\$17,500,000 to < 25,000,000	1.25%	0.50%
III	\$10,000,000 to < 17,500,000	1.50%	2.50%
IV	\$< 10,000,000	1.75%	0.00%

The total amount available under our new Credit Facility is subject to a borrowing base calculation based on various percentages of accounts receivable and inventory. As of December 31, 2020, we had total capacity of \$70.8 million.

We had no outstanding borrowings against the Credit Facility for fiscal years ending December 31, 2020 or December 31, 2019.

Credit Facility Covenants

Our Credit Facility contains restrictive covenants which require us to maintain a fixed charge coverage ratio. These restrictive covenants are only in effect upon a triggering event taking place (as defined in the agreement). Our Credit Facility contains restrictions on the amount of dividends that may be paid. During the twelve months ended December 31, 2020, there were no triggering events and the covenant was not in effect for our Credit Facility.

On March 15, 2021, we entered into a senior secured asset-based credit facility with Bank of America, N.A. ("Bank of America"), as agent, for the lenders party thereto and a senior secured term loan facility with TCW Asset Management Company LLC ("TCW"), as agent, for the lenders party thereto, which collectively replaced our existing Credit Agreement with Huntington. Refer to [Note 19](#) for additional information regarding these new credit agreements with Bank of America and TCW.

8. LEASES

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

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

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

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

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

[Table of Contents](#)

The operating ROU asset and operating lease liabilities as of December 31, 2020 and December 31, 2019 are as follows:

(\$ in thousands)	December 31, 2020	December 31, 2019	Financial Statement Line Item
Assets:			
Operating ROU Assets	\$ 1,572	\$ 1,743	Leased assets
Liabilities:			
Current			
Operating	\$ 629	\$ 586	Other accrued expenses
Noncurrent			
Operating	944	1,158	Long-term lease
Total leased liabilities	\$ 1,573	\$ 1,744	

Maturity of our operating lease liabilities are as follows:

(\$ in thousands)	Operating Leases
2021	\$ 675
2022	505
2023	348
2024	107
2025	17
Total lease payments	1,652
Less: Interest	79
Present value of lease liabilities	\$ 1,573

For the twelve months ended December 31, 2020 and December 31, 2019 the weighted average remaining lease term and discount rate were as follows:

	December 31, 2020	December 31, 2019
Weighted-average remaining lease term (years)		
Operating leases	2.0	2.2
Weighted-average discount rate		
Operating leases	3.7%	4.6%

For the twelve months ended December 31, 2020 and December 31, 2019 the supplemental cash flow information is as follows:

(\$ in thousands)	December 31, 2020	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 711	\$ 909
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	\$ 481	\$ 1,419

The breakdown of rent expense for our operating leases for the twelve months ended December 31, 2020 and December 31, 2019 are as follows:

(\$ in thousands)	Twelve Months Ended		Financial Statement Line Item
	December 31, 2020	December 31, 2019	
Operating lease expenses - Manufacturing & Sourcing ⁽¹⁾	\$ 678	\$ 636	Cost of goods sold
Operating lease expenses ⁽¹⁾	433	367	Operating expenses
Total lease expenses	\$ 1,111	\$ 1,003	

(1) Includes short-term lease expenses of approximately \$103,000 and \$126,000 for the twelve months ended December 31, 2020 and December 31, 2019, respectively.

9. BENEFIT PLAN

We sponsor a 401(k) savings plan for eligible employees. We provide a contribution of 3% of applicable salary to the plan for all employees with greater than six months of service. Additionally, we match eligible employee contributions at a rate of 0.25%, per one percent of applicable salary contributed to the plan by the employee. This matching contribution will be made by us up to a maximum of 1% of the employee's applicable salary for all qualified employees.

Our approximate contributions to the 401(k) Plan were as follows:

(\$ in thousands)	2020	2019
401k plan sponsor contributions	\$ 961	\$ 955

Deferred Compensation Plans

The Executive Deferred Compensation Plan, which became effective January 1, 2019, is an unfunded non-qualified deferred compensation plan in which certain executives are eligible to participate.

Under the Executive Deferred Compensation Plan, participants may elect to defer up to 75% of their base compensation and up to 100% of their bonuses, commissions, and other compensation. The deferred amounts are paid in accordance with each participant's elections made on or before December 31 of the prior year. In addition to elective deferrals, the Executive Deferred Compensation Plan permits the Company to make discretionary contributions to eligible participants, provided that any participant who is employed on the last day of a plan year will receive a Company contribution equal to no less than 3% of the participant's base compensation, bonus earned, and non-equity incentive plan compensation in the plan year. Company contributions will vest in accordance with the vesting schedule determined by the Committee, except in the event of the participant's death, disability or retirement, in which case the contributions will vest 100% upon such event. Participants may elect to receive payment in a lump sum cash payment or, in the event of the participant's retirement, in annual installments for a period of up to ten years. In the event of a participant's termination of employment, deferred amounts will generally be paid within 60 days following the later of the date (i) of such termination or (ii) the participant attains age 60, except where such termination is due to such participant's death, in which case deferred amounts will be paid to such participant's beneficiary within 30 days of confirmation of the participant's death.

The deferrals are held in a separate trust, which has been established by the Company to administer the Executive Deferred Compensation Plan. The assets of the trust are subject to the claims of the Company's creditors in the event that the Company becomes insolvent. Consequently, the trust qualifies as a grantor trust for income tax purposes (i.e., a "Rabbi Trust"). The assets held by the trust were approximately \$150,000 and \$40,000 as of December 31, 2020 and December 31, 2019, respectively, and are classified as trading securities within prepaid expenses and other current assets in the accompanying consolidated balance sheets, with changes in the deferred compensation charged to operating expenses in the accompanying consolidated statements of operations.

During 2020, we entered into a second deferred compensation plan ("the Dominican Plan"), which became effective August 18, 2020 and is a non-qualified deferred compensation plan for certain key employees at our Dominican Republic manufacturing facility.

Under the Dominican Plan, key employees will receive a set dollar amount, as defined in the agreement, at the later of five years following the effective date of the agreement or upon the employee attaining the age of 65. Payments are due within 30 days of the employee's retirement. If the employee terminates their employment, for any reason, prior to their retirement and five years after the effective date of the agreement, the employee is not eligible to receive a payout. The funds are accrued based on service and are not held in an investment or trust account. The total assets held under the Dominican Plan were approximately \$50,000 as of December 31, 2020.

10. TAXES

The Company accounts for income taxes in accordance with the accounting standard for "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Accordingly, deferred income taxes have been provided for the temporary differences between the financial reporting and the income tax basis of the Company's assets and liabilities by applying enacted statutory tax rates applicable to future years to the basis differences.

[Table of Contents](#)

A breakdown of our income tax expense (benefit) for the years ended December 31 is as follows:

(\$ in thousands)	2020	2019
Federal:		
Current	\$ 4,942	\$ 3,706
Deferred	67	336
Total Federal	5,009	4,042
State & local:		
Current	793	497
Deferred	97	(8)
Total State & local	890	489
Foreign		
Current	102	238
Deferred	-	-
Total Foreign	102	238
Total	\$ 6,001	\$ 4,769

A reconciliation of recorded Federal income tax expense to the expected expense computed by applying the applicable Federal statutory rate for all periods to income before income taxes follows:

(\$ in thousands)	Years Ended December 31,	
	2020	2019
Expected expense at statutory rate (21% in 2020 and 2019)	\$ 5,662	\$ 4,682
Increase (decrease) in income taxes resulting from:		
Exempt income from Dominican Republic operations due to tax holiday	(942)	(821)
GILTI tax	438	410
State and local income taxes	766	369
Foreign Tax Credit/Expense	(30)	(278)
Meals and entertainment	27	48
Nondeductible penalties	20	-
Provision to return filing adjustments and other	60	359
Total	\$ 6,001	\$ 4,769

[Table of Contents](#)

Deferred income taxes recorded in the Consolidated Balance Sheets at December 31, 2020 and 2019 consist of the following:

(\$ in thousands)	2020	2019
Deferred tax assets:		
Asset reserves and accrued expenses	\$ 301	\$ 526
Inventories	528	471
State and local income taxes	169	192
Pension and deferred compensation	18	27
Net operating losses	298	388
Lease asset	269	-
Total deferred tax assets	1,583	1,604
Valuation allowances	(298)	(372)
Total deferred tax assets	1,285	1,232
Deferred tax liabilities:		
Fixed assets	1,571	1,519
Intangible assets	6,587	6,756
Other assets	278	231
Tollgate tax on Lifestyle earnings	228	228
State and local income taxes	623	606
Lease Liability	269	-
Total deferred tax liabilities	9,556	9,340
Net deferred tax liability	\$ 8,271	\$ 8,108

The valuation allowance is related to certain state and local income tax net operating loss carry forwards.

We have provided Puerto Rico tollgate taxes on approximately \$3,684,000 of accumulated undistributed earnings of Lifestyle prior to the fiscal year ended June 30, 1994, that would be payable if such earnings were repatriated to the United States. In 2001, we received abatement for Puerto Rico tollgate taxes on all earnings subsequent to June 30, 1994, thus no other provision for tollgate tax has been made on earnings after that date. If we repatriate the earnings from Lifestyle, \$27,563 of tollgate tax would be due.

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

Taxing Authority Jurisdiction:	Earliest Exam Year
U.S. Federal	2017
Various U.S. States	2016
Puerto Rico (U.S. Territory)	2015
Canada	2015

Our policy is to accrue interest and penalties on any uncertain tax position as a component of income tax expense. As of December 31, 2020, no such expenses were recognized during the year. We do not believe there will be any material changes in our uncertain tax positions over the next 12 months.

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

11. SHAREHOLDERS' EQUITY**Repurchase of Common Stock**

A summary of our authorized share repurchase plans is as follows:

(\$ in thousands, except share and per share amounts)	2020	2019
Maximum authorized share repurchase amount ⁽¹⁾	\$ 7,500	\$ 7,500
Date of plan's authorization by the Board	February 2020	February 2019
Funding source	Working capital	Working capital
Number of shares repurchased under the plan (shares)	129,095	54,249
Amount paid for shares repurchased	\$ 2,938	\$ 1,500
Weighted average price paid per share	\$ 22.76	\$ 27.65
Remaining amount of shares authorized to be purchased under the plan (in dollars)	\$ 4,562	\$ 6,000

(1) Common shares can be purchased in the open market or privately negotiated transactions over the next twelve months from the date of plan authorization.

On March 8, 2021, we announced a new \$7,500,000 share repurchase program that will terminate on March 4, 2022. This program is replacing the 2020 share repurchase program that expired on February 27, 2021.

Preferred Shares

The Company has authorized 250,000 shares of voting preferred stock with no par value. No shares are issued or outstanding. Also, the Company has authorized 250,000 shares of non-voting preferred stock with no par value. Of these, 125,000 shares have been designated Series A non-voting convertible preferred stock with a stated value of \$.06 per share, of which no shares are issued or outstanding at December 31, 2020 and 2019, respectively.

12. SHARE-BASED COMPENSATION

On May 7, 2014, our shareholders approved the 2014 Omnibus Incentive Plan (the "2014 Plan"). The 2014 Plan includes 500,000 of our common shares that may be granted under various types of awards as described in the 2014 Plan. As of December 31, 2020, we were authorized to issue 94,560 shares under the 2014 Plan.

Stock options

The following table presents the weighted average assumptions used in the option-pricing model at the grant date for options granted during the years ended December 31:

Assumptions:	2020	2019
Risk-free interest rate	1.61%	2.84%
Expected dividend yield	2.00%	1.81%
Expected volatility of Rocky's common stock	42.27%	42.05%
Expected option term (years)	6.3	6.3
Weighted-average grant date fair value per share	\$ 9.36	\$ 8.77

For the years ended December 31, 2020 and 2019, we recognized share-based compensation expense and the corresponding tax benefit as follows:

(\$ in thousands)	2020	2019
Share-based compensation expense	\$ 780	\$ 662
Tax benefit	58	109

[Table of Contents](#)

The following summarizes stock option activity for the year ended December 31, 2020:

(\$ amounts are per share)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Actual Term	Aggregate Intrinsic Value
Options outstanding at January 1, 2020	192,000	\$ 19.46		
Issued	78,000	29.43		
Exercised	(8,800)	15.39		
Forfeited or expired	(3,800)	19.96		
Options outstanding at December 31, 2020	<u>257,400</u>	<u>\$ 22.61</u>	<u>5.6</u>	<u>\$ 1,510,216</u>
Expected to vest	<u>150,500</u>	<u>\$ 24.91</u>	<u>6.9</u>	<u>\$ 580,937</u>
Exercisable at December 31, 2020	<u>106,900</u>	<u>\$ 19.38</u>	<u>3.8</u>	<u>\$ 929,279</u>

In the first quarter of 2020, our officers and certain employees were granted 42,000 options. The plans generally provided for grants with the exercise price equal to fair value on the date of grant, graduated vesting periods of up to 5 years, and lives not exceeding 10 years. For the years ended 2020 and 2019, cash received for the exercise of stock options was approximately \$136,000 and \$444,000, respectively.

In the first quarter of 2020, Board of Director members were granted 36,000 stock options that vest over a year and will expire in 5 years.

Restricted stock units

The following table summarizes the status of the Company's restricted stock units and activity as of December 31, 2020:

(\$ amounts are per share)	Restricted Stock Units	
	Quantity	Weighted-Average Grant Date Fair Value Per Share
Nonvested at January 1, 2020	2,500	\$ 11.35
Granted	-	-
Vested	(2,500)	11.35
Forfeited	-	-
Nonvested at December 31, 2020	<u>-</u>	<u>\$ -</u>

As of December 31, 2020, the total unrecognized compensation cost related to non-vested stock options and restricted stock units was \$90,939 with a weighted-average expense recognition period of 3.7 years.

During the years ended December 31, 2020 and 2019, we issued 10,456 and 7,925 shares of common stock to members of our Board of Directors, respectively.

13. EARNINGS PER SHARE

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

A reconciliation of the shares used in the basic and diluted income per common share computation for the years ended December 31, as follows:

(shares in thousands)	Twelve Months Ended	
	December 31,	
	2020	2019
Basic - weighted average shares outstanding	7,304	7,387
Dilutive restricted share units	-	4
Dilutive stock options	33	48
Diluted - weighted average shares outstanding	7,337	7,439
Anti-dilutive securities	149	73

14. REVENUE

Nature of Performance Obligations

Our products are distributed through three distinct channels, which represent our business segments: Wholesale, Retail, and Military. In our Wholesale business, we distribute our products through a wide range of distribution channels representing over 10,000 retail store locations in the U.S., Canada, and internationally. Our Wholesale channels vary by product line and include sporting goods stores, outdoor specialty stores, online retailers, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Our Retail business includes direct sales of our products to consumers through our e-commerce websites, our Rocky outlet store, and Lehigh business. We also sell footwear under the Rocky label to the U.S. Military.

Significant Accounting Policies and Judgements

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

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

The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period. Our analyses also contemplated application of the constraint in accordance with the guidance, under which it determined a material reversal of revenue would not occur in a future period for the estimates as of December 31, 2020. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we will adjust these estimates, which would affect net revenue and earnings in the period such variances become known.

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

[Table of Contents](#)

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

When a right of return is part of the arrangement with the customer, we estimate the expected returns based on an analysis using historical data. We adjust our estimate either when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed, whichever occurs earlier. Please see [Note 1](#) and [Note 3](#) for additional information.

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

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

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

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

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

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

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in operating expenses. This treatment is consistent with how we accounted for these costs in prior periods.

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

Contract Balances

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

(\$ in thousands)	December 31, 2020	December 31, 2019
Contract liabilities	<u>\$ 5,582</u>	<u>\$ 4,746</u>

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

(\$ in thousands)	Contract liabilities
Balance, December 31, 2019	4,746
Non-cancelable contracts with customers entered into during the period	8,060
Revenue recognized related to non-cancelable contracts with customers during the period	<u>(7,224)</u>
Balance, December 31, 2020	<u>5,582</u>

Disaggregation of Revenue

All revenues are recognized at a point in time when control of our products pass to the customer at point of shipment. Because all revenues are recognized at a point in time and are disaggregated by channel, our segment disclosures are consistent with ASC 606 disaggregation requirements. See [Note 16](#) for segment disclosures.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow for the years ended December 31, as follows:

(\$ in thousands)	2020	2019
Interest paid	\$ 151	\$ 120
Federal, state, and local income taxes paid, net	\$ 4,669	\$ 5,327
Change in contract receivables, net	\$ (424)	\$ (2,144)
Change in contract liabilities, net	\$ 836	\$ 2,144
Property, plant, and equipment purchases in accounts payable	\$ 2,316	\$ 2,460

16. SEGMENT INFORMATION

Reportable Segments - We operate our business through three reportable segments: Wholesale, Retail and Military.

Wholesale. In our Wholesale segment, our products are offered in over 10,000 retail locations representing a wide range of distribution channels in the U.S. and Canada. These distribution channels vary by product line and target market and include sporting goods stores, outdoor retailers, independent shoe retailers, hardware stores, catalogs, mass merchants, uniform stores, farm store chains, specialty safety stores, specialty retailers and online retailers.

Retail. In our Retail segment, we market directly to consumers through our Lehigh business-to-business including direct sales and through our CustomFit websites, consumer e-commerce websites, third-party marketplaces, and our Rocky outlet store. Through our outlet store, we generally sell first quality or discontinued products in addition to a limited amount of factory damaged goods, which typically carry lower gross margins.

Military. While we are focused on continuing to build our Wholesale and Retail business, we also actively bid, from time to time, on footwear contracts with the U.S. military. Our sales under such contracts are dependent on us winning the bids for these contracts. We are currently fulfilling several multiyear contracts for the U.S. military.

The following is a summary of segment results for the Wholesale, Retail, and Military segments for the years ended December 31,

(\$ in thousands)	Twelve Months Ended December 31,	
	2020	2019
NET SALES:		
Wholesale	\$ 185,554	\$ 179,519
Retail	72,877	64,824
Military	18,878	26,065
Total Net Sales	\$ 277,309	\$ 270,408
GROSS MARGIN:		
Wholesale	\$ 66,336	\$ 61,133
Retail	34,283	28,941
Military	4,116	7,611
Total Gross Margin	\$ 104,735	\$ 97,685

Segment asset information is not prepared or used to assess segment performance.

Product Group Information - The following is supplemental information on net sales by product group for the years ended December 31:

(\$ in thousands)	2020	% of Sales	2019	% of Sales
Work footwear	\$ 126,268	45.5%	\$ 123,021	45.5%
Western footwear	61,127	22.0	52,976	19.6
Duty and commercial military footwear	41,005	14.8	42,583	15.7
Outdoor footwear	21,074	7.6	18,494	6.8
Military footwear	18,878	6.8	26,064	9.6
Apparel	3,382	1.2	2,782	1.0
Other	5,575	2.0	4,488	1.7
	\$ 277,309	100.0%	\$ 270,408	100.0%

Net sales to foreign countries represented approximately 0.8% of net sales in 2020 and 1.4% of net sales in 2019.

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2020 and 2019:

	2020				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
Net sales	\$ 55,720	\$ 56,186	\$ 77,785	\$ 87,618	\$ 277,309
Gross margin	\$ 19,320	\$ 19,462	\$ 29,832	\$ 36,121	\$ 104,735
Net income	\$ 1,188	\$ 2,442	\$ 7,613	\$ 9,721	\$ 20,964
Dividends paid	\$ 1,030	\$ 1,023	\$ 1,023	\$ 1,017	\$ 4,093
Net income per common share:					
Basic	\$ 0.16	\$ 0.33	\$ 1.04	\$ 1.34	\$ 2.87
Diluted	\$ 0.16	\$ 0.33	\$ 1.04	\$ 1.33	\$ 2.86

	2019				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
Net sales	\$ 65,929	\$ 61,959	\$ 67,179	\$ 75,341	\$ 270,408
Gross margin	\$ 22,978	\$ 21,441	\$ 25,014	\$ 28,252	\$ 97,685
Net income	\$ 3,605	\$ 3,156	\$ 5,616	\$ 5,085	\$ 17,462
Dividends paid	\$ 887	\$ 1,035	\$ 1,036	\$ 1,029	\$ 3,987
Net income per common share:					
Basic	\$ 0.49	\$ 0.43	\$ 0.76	\$ 0.68	\$ 2.36
Diluted	\$ 0.48	\$ 0.42	\$ 0.75	\$ 0.70	\$ 2.35

18. COMMITMENTS AND CONTINGENCIES

We are, from time to time, a party to litigation which arises in the normal course of business. Although the ultimate resolution of pending proceedings cannot be determined, in the opinion of management, the resolution of such proceedings in the aggregate will not have a material adverse effect on our financial position, results of operations, or liquidity.

19. SUBSEQUENT EVENTS

Subsequent to year-end, we closed on the acquisition of the performance and lifestyle footwear business of Honeywell International, Inc., which expanded our brand portfolio to include The Original Muck Boot Company, XTRATUF, Servus, NEOS and Ranger Brands. We acquired 100% of the voting interests of the performance and lifestyle footwear business of Honeywell International, Inc. with this acquisition. The total purchase price for these brands was \$230 million, funded through cash on hand and two new credit facilities.

With the acquisition of The Original Muck Boot Company along with the XTRATUF, Servus, NEOS and Ranger brands, we will greatly enhance our powerful portfolio of footwear brands and significantly increase our sales and profitability. We are acquiring a well-run business with a corporate culture and a customer base similar to ours, which provides meaningful growth opportunities within our existing categories as well as an entry into new market segments. Its innovative and authentic product collections complement our existing offering with minimal overlap, which will allow us to strengthen our wholesale relationships and serve a wider consumer audience. At the same time, we plan to leverage our existing advanced fulfillment capabilities to improve distribution of the new brands to wholesale customers and accelerate direct-to-consumer penetration.

In connection with this acquisition, we incurred approximately \$705,000 of transaction related expenses for year ended December 31, 2020, which are included in operating expenses in the consolidated statements of operations. From the period January 1, 2021 to March 15, 2021, we incurred approximately \$4.5 million of transaction related costs.

We also entered into employment agreements with seven key employees from the performance and lifestyle footwear business of Honeywell International, Inc., pursuant to which, among other things, we agreed to grant 25,000 non-qualified stock options in the aggregate to these seven employees as an inducement for continuing their employment with the us.

Certain financial information and related disclosures pertaining to the acquisition completed on March 15, 2021 are not available as of March 16, 2021, the date of issuance of this filing because the closing statements have not yet been completed by the Seller.

On March 15, 2021, we entered into a senior secured term loan facility (“Term Facility”) with TCW, as agent, for the lenders party thereto in the amount of \$30 million. The Term Facility provides for quarterly payments of principal and bears interest of LIBOR plus 7.00% through June 30, 2021. After this date, interest will be assessed quarterly based on our total leverage ratio. The total leverage ratio is calculated as (a) Total Debt to (b) EBITDA. If our total leverage ratio is greater than or equal to 3.25, the effective interest rate will be LIBOR plus 7.00% (or at our option, Prime Rate plus 6.00%). If our total leverage ratio is less than 3.25, the effective interest rate will be LIBOR plus 6.50% (or at our option, Prime Rate plus 5.50%). The term facility also has a LIBOR floor rate of 1.00%.

Our Term Facility is collateralized by a second-lien on accounts receivable, inventory, cash and related assets and a first-lien on substantially all other assets. The term facility matures on March 15, 2026.

On March 15, 2021, we entered into a senior secured asset-based credit facility (“ABL Facility”) with Bank of America as agent, for the lenders party thereto. The ABL Facility provides a new senior secured asset-based revolving credit facility up to a principal amount of \$150 million, which includes a sub-limit for the issuance of letters of credit up to \$5 million. The ABL facility may be increased to an additional \$50 million at the Borrowers’ request and the Lenders’ option, subject to customary conditions. As of March 16, 2021, the total amount available on the ABL Facility was \$150 million, with \$80 million funded at the close of our recent acquisition. The ABL Facility includes a separate first in, last out (FILO) tranche, which allows the Company to borrow at higher advance rates on eligible accounts receivables and inventory balances.

The ABL Facility is collateralized by first-lien on accounts receivable, inventory, cash and related assets and a second-lien on substantially all other assets. The ABL Facility matures on March 15, 2026. Interest on the ABL Facility is based on the amount available to be borrowed as set forth on the following chart:

Average Availability as a

Revolver Pricing Level ⁽¹⁾	Percentage of Commitments	Base Rate	LIBOR Rate	Base Rate for FILO	LIBOR Rate for FILO
I	> 66.7%	0.00%	1.25%	0.50%	1.75%
II	>33.3% and < or equal to 66.7%	0.00%	1.50%	0.50%	2.00%
III	< or equal to 33.3%	0.25%	1.75%	0.75%	2.25%

(1) Until June 30, 2021, Tier II shall apply

Credit Facility Covenants

The Term Facility contains restrictive covenants which requires us to maintain a maximum total leverage ratio and a minimum fixed charge coverage ratio. The fixed charge coverage ratio is calculated as (a) EBITDA minus the sum of (i) Capital Expenditures (except those financed with Borrowed Money other than under the Financing Agreements) and (ii) cash income taxes paid, to (b) Fixed Charges, with Fixed Charges being the sum of (x) interest expense (other than payment-in-kind), (y) scheduled principal payments made on Borrowed Money, and (c) Distributions paid in cash by the Company.

Our ABL Facility contains a restrictive covenant which requires us to maintain a fixed charge coverage ratio upon a triggering event taking place (as defined in the agreement).

Both the Term Facility and the ABL Facility contain restrictions on the amount of dividends that may be paid.

Deferred Financing Fees

In connection with the Term Facility and ABL Facility, we had to pay certain fees that will be capitalized and amortized over the life of each respective loan. In addition, the ABL Facility requires us to pay an annual collateral management in the amount of \$75,000 due on each anniversary of the ABL Facility issuance date, until it matures.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control over Financial Reporting

As part of our evaluation of the effectiveness of internal controls over financial reporting described below, we made certain improvements to our internal controls. However, there were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework (2013)* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based upon that evaluation under the framework in *Internal Control – Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2020. Schneider Downs & Co., Inc., our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal controls over financial reporting which is included within this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Rocky Brands, Inc. and Subsidiaries
Nelsonville, Ohio

Opinion on Internal Control over Financial Reporting

We have audited Rocky Brands, Inc. and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets and the related consolidated statements of operations, shareholders' equity, and cash flows of the Company, and our report dated March 16, 2021 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Schneider Downs & Co., Inc.
Columbus, Ohio
March 16, 2021

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is included under the captions “ELECTION OF DIRECTORS”, “INFORMATION CONCERNING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE”, “INFORMATION CONCERNING EXECUTIVE OFFICERS” and “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” in the Company's Proxy Statement for the 2021 Annual Meeting of Shareholders (the “Proxy Statement”) to be held on May 26, 2021, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is included under the captions “EXECUTIVE COMPENSATION” and “REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS” and “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION” in the Company's Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this item is included under the caption “PRINCIPAL HOLDERS OF VOTING SECURITIES - OWNERSHIP OF COMMON STOCK BY MANAGEMENT,” “- OWNERSHIP OF COMMON STOCK BY PRINCIPAL SHAREHOLDERS,” and “EQUITY COMPENSATION PLAN INFORMATION,” in the Company's Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this item is included under the caption “INFORMATION CONCERNING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE” and “TRANSACTIONS WITH RELATED PERSONS” in the Company's Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is included under the caption “FEES OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM” in the Company's Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

(1) The following Financial Statements are included in this Annual Report on Form 10-K in Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2020 and 2019
- Consolidated Statements of Operations for the years ended December 31, 2020 and 2019
- Consolidated Statements of Shareholders' Equity for the years ended December 31, 2020 and 2019
- Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019
- Notes to Consolidated Financial Statements for the years ended December 31, 2020 and 2019

(2) The following financial statement schedule for the years ended December 31, 2020 and 2019 is included in this Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements contained in the Annual Report. See Appendix A.

- Schedule II -- Consolidated Valuation and Qualifying Accounts.

Schedules not listed above are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements or the notes thereto.

(3) Exhibits:

Exhibit Number	Description
2.1***	Purchase Agreement, dated January 24, 2021, 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. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated January 24, 2021, and filed on January 26, 2021).
3.1	Second Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006).
3.2	Amendment to Second Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006).
3.3 (P)	Amended and Restated Code of Regulations of the Company (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1, registration number 33-56118 (the "Registration Statement")).
4.1 (P)	Form of Stock Certificate for the Company (incorporated by reference to Exhibit 4.1 to the Registration Statement).
4.2	Articles Fourth, Fifth, Sixth, Seventh, Eighth, Eleventh, Twelfth, and Thirteenth of the Company's Second Amended and Restated Articles of Incorporation (see Exhibit 3.1).
4.3 (P)	Articles I and II of the Company's Code of Regulations (see Exhibit 3.3).
4.4	Description of Common Stock (incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020).
10.01	Form of Indemnification Agreement entered into between the Company and its directors and executive officers. (incorporated by reference to Exhibit 10.01 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018).
10.02*	Schedule of directors and executive officers who have entered into the form of Indemnification Agreement.

[Table of Contents](#)

- 10.03 [Amended and Restated Lease Agreement, dated March 1, 2002, between Rocky Shoes & Boots Co. and William Brooks Real Estate Company regarding Nelsonville factory \(incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002\).](#)
- 10.04 [Lease Contract dated December 16, 1999, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development Company \(incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004\).](#)
- 10.05 [Company's 2014 Omnibus Incentive Plan \(incorporated by reference to the Company's Definitive Proxy Statement for the 2015 Annual Meeting of Shareholders, held on May 7, 2015, filed on April 7, 2014\).](#)
- 10.06 [Renewal of Lease Contract, dated June 24, 2004, between Five Star Enterprises Ltd. and the Dominican Republic Corporation for Industrial Development \(incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004\).](#)
- 10.07 [Second Amendment to Lease Agreement, dated as of July 26, 2004, between Rocky Shoes & Boots, Inc. and the William Brooks Real Estate Company \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004\).](#)
- 10.08 [Company's Incentive Compensation Plan \(incorporated by reference to the Company's Definitive Proxy Statement for the 2017 Annual Meeting of Shareholders\).](#)
- 10.09 [Form of Option Award Agreement under the Company's 2014 Omnibus Incentive Plan \(incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014\).](#)
- 10.10 [Form of Restricted Stock Unit Award Agreement under the Company's 2014 Omnibus Incentive Plan \(incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014\).](#)
- 10.11 [Form of Performance Stock Unit Award Agreement under the Company's 2014 Omnibus Incentive Plan \(incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014\).](#)
- 10.12 [Employment Agreement, dated January 1, 2019, by and between the Company and Jason Brooks \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 31, 2018, filed January 7, 2019\).](#)
- 10.13 [Employment Agreement, dated January 1, 2019, by and between the Company and Thomas Robertson \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 31, 2018, filed January 7, 2019\).](#)

[Table of Contents](#)

10.14	Employment Agreement, dated January 1, 2019, by and between the Company and David Dixon (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 31, 2018, filed January 7, 2019).
10.15	Employment Agreement, dated January 1, 2019, by and between the Company and Richard Simms (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 31, 2018, filed January 7, 2019).
10.16	Employment Agreement, dated January 1, 2019, by and between the Company and Byron Wortham (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated December 31, 2018, filed January 7, 2019).
10.17	Revolving Credit, Guaranty, and Security Agreement, dated February 13, 2019, among Rocky Brands, Inc., Lehigh Outfitters, LLC, Lifestyle Footwear, Inc., Rocky Brands US, LLC, Rocky Brands International, LLC, and Rocky Outdoor Gear Store, LLC, as borrowers, the financial institutions party thereto as lenders, and The Huntington National Bank, as agent for the lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 13, 2019, filed February 19, 2019).
10.18	First Amendment to Revolving Credit, Guaranty and Security Agreement dated November 15, 2019 among Rocky Brands, Inc., Lehigh Outfitters, LLC, Lifestyle Footwear Inc., Rocky Brands US, LLC, Rocky Brands International, LLC, and Rocky Outdoor Gear Store, LLC, as borrowers, the financial institutions party thereto as lenders, and The Huntington National Bank, as agent for the lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 13, 2019, filed February 19, 2019).
10.19	Revolving Credit, Guaranty, and Security Agreement dated March 15, 2021 between the Company and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 15, 2021 and filed on March 16, 2021).
10.20	Term Credit and Security Agreement dated March 15, 2021 between the Company and The Direct Lending Group of TCW Asset Management Company, LLC. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated March 15, 2021 and filed on March 16, 2021).
21*	Subsidiaries of the Company.
23*	Independent Registered Public Accounting Firm's Consent of Schneider Downs & Co., Inc.
24*	Power of Attorney.
31.1*	Rule 13a-14(a) Certification of Principal Executive Officer.
31.2*	Rule 13a-14(a) Certification of Principal Financial Officer.
32**	Section 1350 Certification of Principal Executive Officer/Principal Financial Officer.
101*	Attached as Exhibits 101 to this report are the following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2020 formatted in Inline eXtensible iXBRL ("eXtensible Business Reporting Language"): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements.
104*	Cover Page Interactive Data File, formatted in Inline XBRL and contained in Exhibit 101

* Filed with this Annual Report on Form 10-K.

** Furnished with this Annual Report on Form 10-K.

*** Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby undertakes to furnish copies of any of the omitted schedules or exhibits upon request of the U.S. Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROCKY BRANDS, INC.

Date: March 16, 2021

By: /s/ JASON BROOKS
Jason Brooks, Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JASON BROOKS</u> Jason Brooks	Chief Executive Officer (Principal Executive Officer)	March 16, 2021
<u>/s/ THOMAS D. ROBERTSON</u> Thomas D. Robertson	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2021
<u>* MIKE BROOKS</u> Mike Brooks	Chairman and Director	March 16, 2021
<u>* CURTIS A. LOVELAND</u> Curtis A. Loveland	Secretary and Director	March 16, 2021
<u>* GLENN E. CORLETT</u> Glenn E. Corlett	Director	March 16, 2021
<u>* MICHAEL L. FINN</u> Michael L. Finn	Director	March 16, 2021
<u>* G. COURTNEY HANING</u> G. Courtney Haning	Director	March 16, 2021
<u>* JAMES L. STEWART</u> James L. Stewart	Director	March 16, 2021
<u>* WILLIAM L. JORDAN</u> William L. Jordan	Director	March 16, 2021
<u>* ROBERT B. MOORE, JR.</u> Robert B. Moore, Jr.	Director	March 16, 2021
<u>* TRACIE WINBIGLER</u> Tracie Winbigler	Director	March 16, 2021

By: /s/ JASON BROOKS
Jason Brooks, Attorney-in-Fact

Appendix A

ROCKY BRANDS, INC. AND SUBSIDIARIES

Schedule II

Consolidated Valuation and Qualifying Accounts for the Years Ended December 31, 2020 and 2019
(\$ in thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
ALLOWANCE FOR DOUBTFUL ACCOUNTS				
Year ended December 31, 2020	\$ 952	\$ 452	\$ (1,162) (1)	\$ 242
Year ended December 31, 2019	\$ 1,268	\$ 187	\$ (503) (1)	\$ 952
VALUATION ALLOWANCE FOR DEFERRED TAX ASSETS				
Year ended December 31, 2020	\$ 372	\$ -	\$ (74)	\$ 298
Year ended December 31, 2019	\$ 421	\$ -	\$ (49)	\$ 372
ALLOWANCE FOR DISCOUNTS AND RETURNS				
Year ended December 31, 2020	\$ 1,480	\$ 23,223	\$ (22,885)	\$ 1,818
Year ended December 31, 2019	\$ 1,600	\$ 19,492	\$ (19,612)	\$ 1,480

(1) Amount charged off, net of recoveries

DESCRIPTION OF COMMON STOCK

The following is a description of common stock of Rocky Brands, Inc. (the "Company"), which is the only security of the Company registered pursuant to Section 12 of the Securities and Exchange Act of 1934. The following description is based on the related provisions of the Company's Second Amended and Restated Articles of Incorporation, as amended (the "Articles"), Amended and Restated Code of Regulations (the "Regulations"), and applicable Ohio law. This description is intended as a summary and is qualified in its entirety by, and should be read in conjunction with, the Articles, Regulations and applicable Ohio law. The Articles and Regulations are filed as exhibits to the Company's most recent Annual Report on Form 10-K and are incorporated herein by reference.

Authorized Common Stock

The Company is authorized to issue up to 25,000,000 shares of common stock, without par value (the "Common Stock").

In addition to the Common Stock, the Company is also authorized to issue up to 250,000 shares of Voting Preferred Stock, without par value, and 250,000 shares of Non-Voting Preferred Stock, without par value (collectively, the "Preferred Stock"). The issuance of Preferred Stock may adversely affect the rights of holders of the Company's Common Stock by, among other things:

- restricting dividends on the Common Stock;
- diluting the voting power of the Common Stock;
- impairing the liquidation rights of the Common Stock; or
- delaying or preventing a change in control without further action by the Company's board of directors or shareholders.

Common Stock***Fully Paid and Nonassessable***

All of the outstanding shares of the Company's Common Stock are fully paid and nonassessable.

Voting Rights

The holders of shares of Common Stock are entitled to one vote per share on all matters to be voted on by such holders. The election of director nominees requires the favorable vote of a plurality of all votes cast by the holders of the Common Stock at a meeting at which a quorum is present. Holders of shares of Common Stock are not entitled to cumulative voting of their shares in elections of directors.

Board Classification

The Company's board of directors is divided into two classes serving staggered terms of two years.

Dividends

Subject to the rights of the holders of any class of Preferred Stock outstanding at any time, the holders of shares of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Company's board of directors in its discretion from funds legally available therefor.

Right to Receive Liquidation Distributions

Upon liquidation, dissolution or winding-up, and after the Company pays or makes adequate provision for all of its known debts and liabilities, and subject to any rights that are granted to the holders of any class of Preferred Stock, the holders of shares of Common Stock are entitled to receive pro rata all assets remaining available for distribution to holders of such shares.

No Preemptive or Similar Rights

The Common Stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares of Common Stock.

Anti-Takeover Provisions of the Articles, Regulations and Ohio Law

The following provisions of the Company's Articles, Regulations, and Ohio law may delay or discourage transactions involving an actual or potential change in the Company's control or change in its management, including transactions in which shareholders might otherwise receive a premium for their shares, or transactions that the Company's shareholders might otherwise deem to be in their best interests.

Articles and Regulations:

Among other things, the Articles and Regulations:

- permit the issuance of Preferred Stock by action of the board of directors;
 - provide that, except for a vacancy caused by the removal of a director as provided by law or in the Regulations, a vacancy may be filled by a person selected by a majority of the remaining directors then in office;
 - require that prospective nominees to the board of directors make certain certifications to the Company, including, without limitation, concerning the nominating shareholder's ownership position in the Company's securities;
 - require that shareholders seeking to present proposals before a meeting of shareholders or to nominate candidates for election as directors at a meeting of shareholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of such notice;
 - divide the board of directors into two classes serving staggered terms of two years;
 - provide that directors may be removed from office only for cause;
 - provide that the Company shall, to the fullest extent permitted by Ohio law, indemnify, defend and hold harmless the Company's directors, officers and certain other covered
-

- persons against certain liabilities and losses incurred in connection with their positions or services; and
- do not provide for cumulative voting rights for the election of directors.

Ohio Business Combination Statute:

Additionally, the Company is subject to Chapter 1704 of the Ohio Revised Code, which prohibits certain business combinations and transactions between an “issuing public corporation” and an “interested shareholder” for at least three years after the interested shareholder attains 10% ownership of the issuing public corporation, unless the board of directors of the issuing public corporation approves the transaction prior to the interested shareholder attaining such 10% ownership. An “issuing public corporation” is an Ohio corporation with 50 or more shareholders that has its principal place of business, principal executive offices, or substantial assets within the State of Ohio, and as to which no close corporation agreement exists. An “interested shareholder” is a person who, at any time within the three-year period immediately prior to the date on which it is sought to be determined whether the person is an interested shareholder, was the beneficial owner of 10% or more of the shares of a corporation. Examples of transactions regulated by Chapter 1704 include the disposition of assets, mergers and consolidations, voluntary dissolutions, and the transfer of shares.

Subsequent to the three-year period, a transaction subject to Chapter 1704 may take place provided that certain conditions are satisfied, including at least one of the following:

- prior to the interested shareholder’s share acquisition date, the board of directors of the issuing public corporation approved the purchase of shares by the interested shareholder;
- the transaction is approved by the holders of shares with at least 66 2/3% of the voting power of the corporation (or a different proportion set forth in the articles of incorporation), including at least a majority of the outstanding shares after excluding shares controlled by the interested shareholder; or
- the business combination results in shareholders, other than the interested shareholder, receiving a fair price plus interest for their shares.

Ohio Control Bids Statute:

Section 1707.041 of the Ohio Revised Code regulates certain “control bids” for corporations in Ohio with certain concentrations of Ohio shareholders and permits the Ohio Division of Securities to suspend a control bid if certain information is not provided to offerees, the subject corporation and the Ohio Division of Securities. Control bids include the purchase or offer to purchase any equity security of such a corporation from a resident of Ohio if, after the purchase of that security, the offeror would be directly or indirectly the beneficial owner of more than 10% of any class of issued and outstanding equity securities of the corporation. Information that must be provided in connection with a control bid includes, among other things, a statement of any plans or proposals that the offeror, upon gaining control, may have to liquidate the subject corporation, sell its assets, effect a merger or consolidation of the corporation, establish, terminate, convert, or amend employee benefit plans, close any plant or facility of the subject corporation or of any of its subsidiaries or affiliates, change or reduce its work force or the work force of any of its subsidiaries or affiliates, or make any other major change in the corporation’s business, corporate structure, management personnel or policies of employment. A “control bid” does not include an offer to acquire any equity security, or the acquisition of any equity security pursuant to an offer, for the sole account of the offeror, from not more than fifty persons, made in good faith and not for the purpose of avoiding the provisions of Chapter 1707 of the Ohio Revised Code.

Ohio Control Share Acquisition Statute

The Company has opted out of the application of Section 1701.831 of the Ohio Revised Code, known as the “Ohio Control Share Acquisition Statute.” This statute provides that, unless a corporation’s articles of incorporation or code of regulations provide that such section does not apply, notice and information filings, and special shareholder meeting and voting procedures, must occur prior to any person’s acquisition of an issuer’s shares that would entitle the acquirer to exercise or direct the voting power of the issuer in the election of directors within any of the following ranges:

- one-fifth or more, but less than one-third, of the voting power;
- one-third or more, but less than a majority, of the voting power; and
- a majority or more of the voting power.

Listing

The Common Stock is listed on the NASDAQ Global Select Market under the trading symbol “RCKY.”

Transfer Agent and Registrar

Computershare Inc. is the transfer agent and registrar of the Common Stock, but this may change from time to time.

Schedule of Indemnification Agreements

Mike Brooks

Jason S. Brooks

Glenn E. Corlett

Michael L. Finn

G. Courtney Haning

William L. Jordan

Curtis A. Loveland

Robert B. Moore, Jr.

James L. Stewart

Tracie Winbigler

Thomas D. Robertson

Richards Simms

Subsidiaries of Rocky Brands, Inc. as of March 16, 2021

Five Star Enterprises Ltd.,
a Cayman Islands corporation

Lifestyle Footwear, Inc.,
a Delaware corporation

Rocky Brands Canada, Inc.,
a Nova Scotia corporation

Rocky Brands US, LLC,
a Delaware limited liability company

Rocky Brands International, LLC
an Ohio limited liability company

Lehigh Outfitters, LLC,
a Delaware limited liability company

US Footwear Holdings, LLC
a Delaware limited liability company

Rocky Outdoor Gear Store, LLC
an Ohio limited liability company

Rocky Brands (Australia) Pty Ltd.
an Australian limited liability company

Mexico FW Holdings, S. de R.L. de C.V.
a Mexico private limited liability company

Honeywell Safety Products (Chuzhou) Co. Ltd.
a China private limited liability company

UK Footwear Holdings Limited
a UK private limited company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K of Rocky Brands, Inc. and Subsidiaries for the year ended December 31, 2020 of our reports dated March 16, 2021 included in its Registration Statement on Form S-8 (No. 333-198167) relating to the consolidated financial statements and internal controls for the two years ended December 31, 2020 and 2019 listed in the accompanying index.

/s/ Schneider Downs & Co., Inc.
Columbus, Ohio
March 16, 2021

POWER OF ATTORNEY

Each director and officer of Rocky Brands, Inc., an Ohio corporation (the "Company"), whose signature appears below hereby appoints Jason Brooks and Curtis A. Loveland, or either of them, as his attorney-in-fact, to sign, in his name and behalf and in any and all capacities stated below, and to cause to be filed with the Securities and Exchange Commission, the Company's Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended December 31, 2020, and likewise to sign and file any amendments, including post-effective amendments, to the Annual Report, and the Company hereby also appoints such persons as its attorneys-in-fact and each of them as its attorney-in-fact with like authority to sign and file the Annual Report and any amendments thereto in its name and behalf, each such person and the Company hereby granting to such attorney-in-fact full power of substitution and revocation, and hereby ratifying all that such attorney-in-fact or his substitute may do by virtue hereof.

IN WITNESS WHEREOF, we have executed this Power of Attorney, in counterparts if necessary, effective as of March 16, 2021.

DIRECTORS/OFFICERS:

<u>Signature</u>	<u>Title</u>
<u>/s/ Jason Brooks</u> Jason Brooks	Chief Executive Officer (Principal Executive Officer)
<u>/s/ Thomas D. Robertson</u> Thomas D. Robertson	Executive Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)
<u>/s/ Curtis A. Loveland</u> Curtis A. Loveland	Secretary and Director
<u>/s/ Mike Brooks</u> Mike Brooks	Chairman and Director
<u>/s/ Glenn E. Corlett</u> Glenn E. Corlett	Director
<u>/s/ Michael L. Finn</u> Michael L. Finn	Director
<u>/s/ G. Courtney Haning</u> G. Courtney Haning	Director
<u>/s/ James L. Stewart</u> James L. Stewart	Director
<u>/s/ William L. Jordan</u> William L. Jordan	Director
<u>/s/ Robert B. Moore, Jr.</u> Robert B. Moore, Jr.	Director
<u>/s/ TRACIE WINBIGLER</u> Tracie Winbigler	Director

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

I, Jason Brooks, certify that:

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

Date: March 16, 2021

/s/ Jason Brooks

Jason Brooks

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

I, Thomas D. Robertson, certify that:

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

Date: March 16, 2021

/s/ Thomas D. Robertson

Thomas D. Robertson

Executive Vice President, Chief Financial

Officer, and Treasurer

(Principal Financial and Accounting Officer)

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

In connection with the Annual Report of Rocky Brands, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Jason Brooks

Jason Brooks
Chief Executive Officer (Principal Executive Officer)
March 16, 2021

/s/ Thomas D. Robertson

Thomas D. Robertson
Executive Vice President, Chief Financial Officer, and
Treasurer
(Principal Financial and Accounting Officer)
March 16, 2021

This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.
