UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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	**No. 31-1364046**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

39 East Canal Street, Nelsonville, Ohio 45764
(Address of principal executive offices, including zip code)

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

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

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

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

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

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

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

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

There were 7,326,411 shares of the Registrant's Common Stock outstanding on October 31, 2022.

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ITEM 1 – FINANCIAL STATEMENTS

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

	September 30, 2022	December 31, 2021	September 30, 2021
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	$ 7,277	$ 5,909	$ 12,918
Trade receivables – net	118,193	126,807	80,677
Contract receivables	-	1,062	1,899
Other receivables	490	242	211
Inventories – net	265,082	232,464	202,199
Income tax receivable	1,633	4,294	4,220
Prepaid expenses	4,360	4,507	7,438
Total current assets	397,035	375,285	309,562
LEASED ASSETS	9,971	11,428	2,833
PROPERTY, PLANT & EQUIPMENT – net	60,271	59,989	57,190
GOODWILL	50,246	50,641	49,169
IDENTIFIED INTANGIBLES – net	122,552	126,315	127,116
OTHER ASSETS	878	917	952
TOTAL ASSETS	$ 640,953	$ 624,575	$ 546,822
LIABILITIES AND SHAREHOLDERS' EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	$ 101,683	$ 114,632	$ 85,100
Contract liabilities	-	1,062	1,899
Current Portion of Long-Term Debt	3,250	3,250	3,250
Accrued expenses:			
Salaries and wages	3,667	3,668	6,409
Taxes – other	1,784	849	585
Accrued freight	3,842	1,798	3,796
Commissions	1,619	2,447	898
Accrued duty	8,051	5,469	5,243
Accrued interest	2,314	2,133	2,216
Other	5,486	4,828	4,956
Total current liabilities	131,696	140,136	114,352
LONG-TERM DEBT	281,515	266,794	235,506
LONG-TERM TAXES PAYABLE	169	169	169
LONG-TERM LEASE	7,394	8,809	1,980
DEFERRED INCOME TAXES	10,293	10,293	8,271
DEFERRED LIABILITIES	558	519	503
TOTAL LIABILITIES	431,625	426,720	360,781
SHAREHOLDERS' EQUITY:			
Common stock, no par value;			
25,000,000 shares authorized; issued and outstanding September 30, 2022 - 7,322,232; December 31, 2021 - 7,302,199; September 30, 2021 - 7,295,435	68,986	68,061	67,662
Retained earnings	140,342	129,794	118,379
Total shareholders' equity	209,328	197,855	186,041
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 640,953	$ 624,575	$ 546,822

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
NET SALES	$ 147,486	$ 125,507	$ 476,549	$ 344,776
COST OF GOODS SOLD	95,556	78,546	308,042	213,522
GROSS MARGIN	51,930	46,961	168,507	131,254
OPERATING EXPENSES	40,305	44,208	138,089	113,483
INCOME FROM OPERATIONS	11,625	2,753	30,418	17,771
INTEREST AND OTHER EXPENSES	(4,181)	(3,241)	(12,411)	(7,366)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	7,444	(488)	18,007	10,405
INCOME TAX EXPENSE (BENEFIT)	1,753	(113)	4,057	2,393
NET INCOME (LOSS)	$ 5,691	$ (375)	$ 13,950	$ 8,012
INCOME (LOSS) PER SHARE				
Basic	$ 0.78	$ (0.05)	$ 1.91	$ 1.10
Diluted	$ 0.77	$ (0.05)	$ 1.89	$ 1.08
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	7,319	7,370	7,313	7,304
Diluted	7,349	7,370	7,382	7,436

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Common Stock and Additional Paid-in Capital Shares Outstanding	Amount	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
BALANCE - December 31, 2020	7,248	$ 65,971	-	$ 113,534	$ 179,505
NINE MONTHS ENDED SEPTEMBER 30, 2021					
Net income				$ 4,492	$ 4,492
Dividends paid on common stock ($0.14 per share)				(1,015)	(1,015)
Repurchase of common stock	-	-		-	-
Stock issued for options exercised, including tax benefits	31	$ 607		-	607
Stock compensation expense	2	278		-	278
BALANCE - March 31, 2021	7,281	$ 66,856	$ -	$ 117,011	$ 183,867
Net income				$ 3,895	$ 3,895
Dividends paid on common stock ($0.14 per share)				(1,020)	(1,020)
Repurchase of common stock	-	-		-	-
Stock issued for options exercised, including tax benefits	1	$ 24		-	24
Stock compensation expense	1	330		-	330
BALANCE - June 30, 2021	7,283	$ 67,210	$ -	$ 119,886	$ 187,096
Net loss				$ (375)	$ (375)
Dividends paid on common stock ($0.155 per share)				(1,132)	(1,132)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	9	$ 125		-	125
Stock compensation expense	3	327		-	327
BALANCE - September 30, 2021	7,295	$ 67,662	$ -	$ 118,379	$ 186,041
BALANCE - December 31, 2021	7,302	$ 68,061	-	$ 129,794	$ 197,855
NINE MONTHS ENDED SEPTEMBER 30, 2022					
Net income				$ 7,338	$ 7,338
Dividends paid on common stock ($0.155 per share)				(1,133)	(1,133)
Repurchase of common stock	-	-		-	-
Stock issued for options exercised, including tax benefits	7	$ 145		-	145
Stock compensation expense	2	248		-	248
BALANCE - March 31, 2022	7,311	$ 68,454	$ -	$ 135,999	$ 204,453
Net income				$ 920	$ 920
Dividends paid on common stock ($0.155 per share)				(1,132)	(1,132)
Repurchase of common stock	-	-			-
Stock issued for options exercised, including tax benefits	-	$ -		-	-
Stock compensation expense	2	226		-	226
BALANCE - June 30, 2022	7,313	$ 68,680	$ -	$ 135,787	$ 204,467
Net income				$ 5,691	$ 5,691
Dividends paid on common stock ($0.155 per share)				(1,136)	(1,136)
Repurchase of common stock	-	-		-	-
Stock issued for options exercised, including tax benefits	7	79		-	79
Stock compensation expense	2	$ 227		-	227
BALANCE - September 30, 2022	7,322	$ 68,986	$ -	$ 140,342	$ 209,328

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,950	$ 8,012
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	8,759	8,232
Amortization of debt issuance costs	640	462
Provision for bad debts	1,935	90
(Gain) Loss on disposal of assets	(1,174)	12
Stock compensation expense	701	935
Change in assets and liabilities:		
Receivables	6,719	4,129
Contract receivables	1,062	3,272
Inventories	(34,667)	(83,642)
Other current assets	1,604	(4,127)
Other assets	39	(504)
Accounts payable	(14,690)	41,082
Accrued and other liabilities	4,195	2,482
Income taxes	2,661	(5,239)
Contract liabilities	(1,062)	(3,684)
Net cash used in operating activities	(9,328)	(28,488)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(5,677)	(15,860)
Acquisition of business, net of cash acquired	-	(206,970)
Proceeds from the sale of assets	5,469	-
Net cash used in investing activities	(208)	(222,830)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	30,531	144,685
Repayments on revolving credit facility	(11,013)	(30,500)
Proceeds from term loan	-	130,000
Repayments on term loan	(5,437)	(1,625)
Debt issuance costs	-	(4,266)
Proceeds from stock options	224	756
Dividends paid on common stock	(3,401)	(3,167)
Net cash provided by financing activities	10,904	235,883
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,368	(15,435)
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD	5,909	28,353
END OF PERIOD	$ 7,277	$ 12,918

See Notes to Unaudited Condensed Consolidated Financial Statements

Rocky Brands, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

We are a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky, Georgia Boot, Durango, Lehigh, The Original Muck Boot Company ("Muck"), XTRATUF, Servus and Ranger. 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. In addition, as part of our strategy of outfitting consumers from head-to-toe, we market complementary branded apparel and accessories that we believe leverage the strength and positioning of each of our brands.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments that are necessary for a fair presentation of the financial results. All such adjustments reflected in the unaudited condensed consolidated financial statements are considered to be of normal and recurring nature. The results of operations for the three and nine months ended September 30, 2022 and 2021 are not necessarily indicative of the results to be expected for the whole year. The December 31, 2021 condensed consolidated balance sheet data was derived from the audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). This Quarterly Report on Form 10-Q should be read in connection with our Annual Report on Form 10-K for the year ended December 31, 2021, which includes all disclosures required by GAAP.

2. ACCOUNTING STANDARDS UPDATES

Recently Issued Accounting Pronouncements

We are currently evaluating the impact of the following Accounting Standards Update (“ASU”) on our Unaudited Condensed Consolidated Financial Statements or Notes to the Unaudited Condensed Consolidated Financial Statements:

Standard	Description	Anticipated Adoption Period	Effect on the financial statements or other significant matters
ASU 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	We are evaluating the impacts of the new standard on our existing financial instruments, including trade receivables.

Accounting Standards Adopted in the Current Year

Standard	Description	Effect on the financial statements or other significant matters
ASU 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.	We adopted the new standard in Q1 2021 and the standard did not have a significant impact on our Consolidated Financial Statements.

3. FAIR VALUE

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

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

- 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 credit facilities is categorized as Level 2.

We hold assets and liabilities in a separate trust in connection with deferred compensation plans. The fair value of these assets is based on unadjusted quoted market prices for the funds in active markets with sufficient volume and frequency (Level 1).

4. ACQUISITION

The Performance and Lifestyle Footwear Business of Honeywell International Inc.

On January 24, 2021, we entered into a Purchase Agreement (the "Purchase Agreement") with certain subsidiaries of Honeywell International Inc. (collectively, "Honeywell"), to purchase Honeywell's performance and lifestyle footwear business, including brand names, trademarks, assets and liabilities associated with Honeywell's performance and lifestyle footwear business (the "Acquisition") for an aggregate purchase price of $212 million.

On March 15, 2021 (the "Acquisition Date"), pursuant to the terms and conditions set forth in the Purchase Agreement, we completed the Acquisition for an aggregate preliminary closing price of approximately $207 million, net of cash acquired, based on preliminary working capital and other adjustments. Upon a final agreement of net working capital as of the Acquisition Date, we owed Honeywell an additional $5.4 million. The Acquisition was funded through cash on hand and borrowings under two new credit facilities. See Note 11 for information regarding the two new credit facilities.

The Acquisition expanded our brand portfolio to include Muck, XTRATUF, Servus, NEOS and Ranger brands (the "Acquired Brands"). We acquired 100% of the voting interests of certain subsidiaries and additional assets comprising the performance and lifestyle footwear business of Honeywell with the Acquisition. On September 30, 2022, we completed the sale of the NEOS brand and the related assets. See Note 5 - Asset Sale for additional information.

Through the Acquisition, we have greatly enhanced our portfolio of footwear brands and significantly increased our sales. We acquired a well-run business with a corporate culture and a customer base similar to ours, which provides meaningful growth opportunities within our existing product 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 Acquired Brands to wholesale customers and accelerate direct-to-consumer penetration.

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

We acquired multiple leases through the Acquisition including the lease of our Rock Island, Illinois and China manufacturing facilities and an office building in Westwood, Massachusetts.

The Acquisition contributed net sales of $62.0 million and $37.2 million, respectively, for the three months ended September 30, 2022 and 2021, and net sales of $193.2 million and $94.4 million, respectively, to the unaudited condensed consolidated operating results for the nine months ended September 30, 2022 and 2021. The Acquisition contributed net income of $1.9 million and net loss of $3.8 million, respectively, to the unaudited condensed consolidated operating results for the three months ended September 30, 2022 and 2021, and net income of $3.8 million and net loss of $3.1 million, respectively, to the unaudited condensed consolidated operating results for the nine months ended September 30, 2022 and 2021.

Acquisition-related costs

Costs incurred to complete and integrate the Acquisition are expensed as incurred and included in operating expenses in the accompanying condensed consolidated statements of operations. During the three months ended September 30, 2022 and 2021, there were approximately $0.8 million and $2.9 million, respectively, of acquisition-related costs recognized. During the nine months ended September 30, 2022 and 2021, there were approximately $2.7 million and $10.3 million, respectively, of acquisition-related costs recognized. These acquisition-related costs represent investment banking fees, legal and professional fees, transaction fees, integration costs, amortization, consulting fees and restructuring costs associated with the Acquisition.

Purchase Price Allocation

The Acquisition has been accounted for under the business combinations accounting guidance. As a result, we have applied acquisition accounting, which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the Acquisition Date. The aggregate closing price noted above was allocated to the major categories of assets acquired and liabilities assumed based on their fair values at the Acquisition Date using primarily Level 2 and Level 3 inputs. These Level 2 and Level 3 valuation inputs include an estimate of future cash flows and discount rates. Additionally, estimated fair values are based, in part, upon outside valuation for certain assets, including specifically identified intangible assets.

The allocation of the purchase price to the assets acquired and liabilities assumed, including the residual amount allocated to goodwill is finalized and is no longer subject to adjustment as the final valuation related to assets acquired and liabilities assumed has been obtained.

The following table summarizes the consideration paid and estimated fair value of the assets acquired and liabilities assumed as of the Acquisition Date.

($ in thousands)	Fair Value
Cash	$ 2,655
Accounts receivable (1)	36,734
Inventories (2)	41,057
Property, plant and equipment	16,243
Goodwill (3)	50,246
Intangible assets	98,620
Other assets	1,250
Accounts payable	(18,108)
Accrued expenses	(13,634)
Total identifiable net assets	215,063
Cash acquired	(2,655)
Total cash paid, net of cash acquired	$ 212,408

(1) The recorded amount for accounts receivable considers expected uncollectible amounts of approximately $0.6 million in its determination of fair value.

(2) Fair value of finished goods inventories included a preliminary step up value of approximately $3.5 million, of which approximately $0.9 million and $3.5 million, respectively, was expensed during the three months and nine months ended September 30, 2021, and are included in costs of goods solds in the accompanying unaudited condensed consolidated statements of operations.

(3) Goodwill consists largely of the acquired workforce, expected cost synergies and economies of scale resulting from the Acquisition.

Unaudited Pro Forma Financial Information

The following unaudited pro forma results of operations assume that the Acquisition occurred at the beginning of the periods presented. These unaudited pro forma results are presented for information purposes only and are not necessarily indicative of what the results of operations would have been if the Acquisition had occurred at the beginning of the periods presented, nor are they indicative of the future results of operations. The pro forma results presented below are adjusted for the removal of acquisition-related costs of approximately $0.8 million and $2.9 million, for the three months ended September 30, 2022 and 2021, respectively, and approximately $2.7 million and $10.3 million, respectively, for the three and nine months ended September 30, 2022 and 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands, except per share amount)	2022	2021	2022	2021
Net sales	$ 147,486	$ 125,507	$ 476,549	$ 383,454
Net income	$ 6,289	$ 2,517	$ 16,075	$ 22,620
Diluted earnings per share	$ 0.86	$ 0.34	$ 2.18	$ 3.04

5. ASSET SALE

On September 30, 2022, we completed the sale of the NEOS brand and related assets to certain entities controlled by SureWerx pursuant to terms of an asset purchase agreement dated September 30, 2022. Total consideration for this transaction was approximately $5.8 million, of which $5.5 million was received at closing. The remaining $0.3 million was deposited in escrow and shall be managed and paid out in accordance with the terms of the asset purchase agreement and the escrow agreement. The sale of NEOS brand included the sale of inventory, fixed assets, customer relationships, tradenames, all of which related to our Wholesale segment. This transaction resulted in the sale of inventory of approximately $3.6 million recorded in net sales and approximately $2.4 million recorded in costs of goods sold in the accompanying condensed consolidated Statement of Operations for the three and nine months ended September 30, 2022. Fixed assets, customer relationships and tradenames sold in connection with the sale of NEOS resulted in reduction of operating expenses of approximately $0.7 million recorded in the accompanying unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2022.

6. REVENUE

Nature of Performance Obligations

Our products are distributed through three distinct channels, which represent our business segments: Wholesale, Retail, and Contract Manufacturing. In our Wholesale business, we distribute our products through a wide range of distribution channels representing over ten thousand retail store locations in the U.S., Canada, and internationally. Our Wholesale channels vary by product line and include sporting goods stores, outdoor specialty stores, online retailers, marine stores, 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, marketplaces, our Rocky outlet store, and Lehigh businesses. Under our Contract Manufacturing segment, we sell footwear under the Rocky label to the U.S. Military and manufacture private label footwear and other footwear as contracted by customers.

Significant Accounting Policies and Judgements

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

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

The amount of variable consideration which is included in the transaction price may be constrained and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period. Our analyses also contemplated application of the constraint in accordance with the guidance, under which it determined a material reversal of revenue would not occur in a future period for the estimates detailed below as of September 30, 2022. 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 of less than six months, there is not a significant financing component in our contracts with customers.

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

When a right of return is part of the arrangement with the customer, we estimate the expected returns based on an analysis using historical data. We adjust our estimate either when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed, whichever occurs earlier. See Note 7 and Note 8 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.

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

Contract Balances

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

($ in thousands)	September 30, 2022	December 31, 2021	September 30, 2021
Contract liabilities	$ -	$ 1,062	$ 1,899

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

($ in thousands)	Contract liabilities
Balance, December 31, 2021	$ 1,062
Non-cancelable contracts with customers entered into during the period	-
Revenue recognized related to non-cancelable contracts with customers during the period	(1,062)
Balance, September 30, 2022	$ -

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 15 for segment disclosures.

7. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately $2,548,000, $613,000 and $332,000 at September 30, 2022, December 31, 2021 and September 30, 2021, respectively. We record the allowance based on historical experience, the age of the receivables, and identification of customer accounts that are likely to prove difficult to collect due to various criteria including pending bankruptcy. However, estimates of the allowance in any future period are inherently uncertain and actual allowances may differ from these estimates. If actual or expected future allowances were significantly greater or less than established reserves, a reduction or increase to bad debt expense would be recorded in the period this determination was made. Our credit policy generally provides that trade receivables will be deemed uncollectible and written-off once we have pursued all reasonable efforts to collect on the account.

In accordance with ASC 606, the return reserve liability netted against trade receivables was approximately $2,204,000, $1,670,000 and $1,583,000 at September 30, 2022, December 31, 2021 and September 30, 2021, respectively.

8. INVENTORY

Inventories are comprised of the following:

($ in thousands)	September 30, 2022	December 31, 2021	September 30, 2021
Raw materials	$ 18,959	$ 20,933	$ 23,639
Work-in-process	1,412	1,316	1,760
Finished goods	244,711	210,215	176,800
Total	$ 265,082	$ 232,464	$ 202,199

In accordance with ASC 606, the return reserve allowance included within inventories was approximately $1,192,000, $902,000 and $647,000 at September 30, 2022, December 31, 2021 and September 30, 2021, respectively.

9. GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill arose from the Acquisition and largely consists of the workforce acquired, expected cost synergies and economies of scale resulting from the business combination. The amount of goodwill that is expected to be deductible for tax purposes is $49.4 million.

GAAP has established guidance for reporting information about a company's operating segments, including disclosures related to a company's products and services, geographic areas and major customers. We monitor and review our segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments, as well as our reporting units. As previously stated, our operations represent three reporting segments: Wholesale, Retail and Contract Manufacturing. Goodwill impairment analysis will be performed for our Wholesale and Retail reporting segments. There is no goodwill allocated to our Contract Manufacturing segment. Of total goodwill, $25.4 million was allocated to our Wholesale segment and $24.8 million was allocated to our Retail segment.

Goodwill is subject to impairment tests at least annually. We review the carrying amounts of goodwill by reporting unit at least annually, or when indicators of impairment are present, to determine if goodwill may be impaired. We include assumptions about the expected future operating performance as part of a discounted cash flow analysis to estimate fair value. If the carrying value of these assets is not recoverable, based on the discounted cash flow analysis, management compares the fair value of the assets to the carrying value. Goodwill is considered impaired if the recorded value exceeds the fair value.

We may first assess qualitative factors to determine whether it is more likely than not that the fair value of goodwill is less than its carrying value. We would not be required to quantitatively determine the fair value of goodwill unless we determine, based on the qualitative assessment, that it is more likely than not that its fair value is less than the carrying value. Future cash flows of the individual indefinite-lived intangible assets are used to measure their fair value after consideration of certain assumptions, such as forecasted growth rates and cost of capital, which are derived from internal projection and operating plans. We perform our annual testing for goodwill at the beginning of the fourth quarter of each fiscal year.

10. IDENTIFIED INTANGIBLE ASSETS

A schedule of identified intangible assets is as follows:

($ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
September 30, 2022			
Trademarks			
Wholesale (1)	$ 71,981	-	$ 71,981
Retail (2)	9,220	-	9,220
Patents	895	$ 821	74
Customer relationships (3)	46,006	4,729	41,277
Total Intangibles	$ 128,102	$ 5,550	$ 122,552

(1) $45.4 million of the total resulted from our Acquisition that occurred on March 15, 2021. NEOS trademarks were reduced from approximately $0.6 million to zero at September 30, 2022 as a result of the sale of the NEOS brand (see Note 5).

(2) $6.3 million of the total resulted from our Acquisition that occurred on March 15, 2021.

(3) Resulted from our Acquisition that occurred on March 15, 2021. Customer relationships relating to the NEOS brand of approximately $0.9 million and related amortization of approximately $0.1 million was reduced to zero at September 30, 2022 as a result of the sale of the NEOS brand (see Note 5).

($ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
December 31, 2021			
Trademarks			
Wholesale (1)	$ 72,579	-	$ 72,579
Retail (2)	9,220	-	9,220
Patents	895	$ 804	91
Customer relationships (3)	46,900	2,475	44,425
Total Intangibles	$ 129,594	$ 3,279	$ 126,315

(1) $45.4 million of the total resulted from our Acquisition that occurred on March 15, 2021.

(2) $6.3 million of the total resulted from our Acquisition that occurred on March 15, 2021.

(3) Resulted from our Acquisition that occurred on March 15, 2021.

($ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
September 30, 2021			
Trademarks			
Wholesale (1)	$ 72,592	-	$ 72,592
Retail (2)	9,220	-	9,220
Patents	895	$ 797	98
Customer relationships (3)	46,900	1,694	45,206
Total Intangibles	$ 129,607	$ 2,491	$ 127,116

(1) $45.4 million of the total resulted from our Acquisition that occurred on March 15, 2021.

(2) $6.3 million of the total resulted from our Acquisition that occurred on March 15, 2021.

(3) Resulted from our Acquisition that occurred on March 15, 2021.

The weighted average life for our patents is 7.2 years.

A schedule of approximate amortization expense related to finite-lived intangible assets for the three and nine months ended September 30, 2022 and 2021 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2022	2021	2022	2021
Amortization expense	$ 788	$ 788	$ 2,362	$ 1,713

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

($ in thousands)	Amortization Expense
2022	$ 770
2023	3,011
2024	3,074
2025	3,070
2026	3,067
2027	3,064
2028+	25,295

11.LONG-TERM DEBT

On March 15, 2021, we entered into a senior secured term loan facility ("Term Facility") with TCW Asset Management Company, LLC (TCW), as agent, for the lenders party thereto in the amount of $130 million. The Term Facility provided for quarterly payments of principal and bore 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 3.50, the effective interest rate will be SOFR plus 7.50% (or at our option, Prime Rate plus 6.50%). If our total leverage ratio is less than 3.50 but greater than 3.00, the effective interest rate will be SOFR plus 7.00% (or at our option, Prime Rate plus 6.00%). If our total leverage ratio is less than 3.00, the effective interest rate will be SOFR plus 6.50% (or at our option, Prime Rate plus 5.50%). The Term Facility also has a SOFR floor rate of 1.00%. In June 2022, we entered into a second amendment with TCW to further amend our Term Facility to consent to the modifications in our borrowing capacity under the ABL Facility as described below, and to adjust certain pricing and prepayment terms, among other things. The second amendment also modified the interest index whereas SOFR will be used to calculate interest rather than LIBOR. The effective interest rate was increased to SOFR plus 7.50% through November 2022. In November 2022, the Term Facility was amended to increase the effective interest rate to LIBOR plus 7.00% until June 2023 and to provide certain EBITDA adjustments with respect to financial covenants, among other things.

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 also entered into a senior secured asset-based credit facility ("ABL Facility") with Bank of America, N.A. ("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 up to an additional $50 million at the Borrowers' request and the Lenders' option, subject to customary conditions. In June 2022, we further amended our ABL Facility to temporarily increase our borrowing capacity by $25 million to $200 million through December 31, 2022, which thereafter will be reduced to $175 million. In November 2022, we entered into a third amendment to our ABL Facility to provide certain EBITDA adjustments with respect to our financial covenants. 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. As of September 30, 2022, we had borrowing capacity of $34.3 million.

The ABL Facility is collateralized by a 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:

Revolver Pricing Level (1)	Average Availability as a Percentage of Commitments	Base Rate	Term SOFR Loan	Base Rate for FILO	Term SOFR FILO Loans
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 applied.

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

Current and long-term debt consisted of the following:

($ in thousands)	September 30, 2022	December 31, 2021	September 30, 2021
Term Facility that matures in 2026 with an effective interest rate of 9.06%, 8.00% and 7.50% as of September 30, 2022, December 31, 2021 and September 30, 2021, respectively	$ 122,125	$ 127,563	$ 128,375
ABL Facility that matures in 2026:			
LIBOR borrowings with an effective interest rate of 5.52%, 1.88% and 1.63% September 30, 2022, December 31, 2021 and September 30, 2021, respectively	162,839	140,000	110,000
Prime borrowings with an effective interest rate of 6.50%, 3.50% and 3.25% as of September 30, 2022, December 31, 2021 and September 30, 2021, respectively	2,752	6,072	4,185
Total debt	287,716	273,635	242,560
Less: Unamortized debt issuance costs	(2,951)	(3,591)	(3,804)
Total debt, net of debt issuance costs	284,765	270,044	238,756
Less: Debt maturing within one year	(3,250)	(3,250)	(3,250)
Long-term debt	$ 281,515	$ 266,794	$ 235,506

Credit Facility Covenants

The Term Facility contains restrictive covenants which require us to maintain a maximum total leverage ratio and a minimum fixed charge coverage ratio, as defined in the agreement. We are in compliance with all credit facility covenants as of September 30, 2022, December 31, 2021 and September 30, 2021.

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 ABL Facility agreement). During the three and nine months ended September 30, 2022 and 2021, there were no triggering events and the covenant was not in effect.

Both the Term Facility and the ABL Facility contain restrictions on the amount of dividend payments.

12. TAXES

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

	Earliest Exam Year
Taxing Authority Jurisdiction:	
U.S. Federal	2018
Various U.S. States	2017
Puerto Rico (U.S. Territory)	2017
Canada	2018
China	2019
Mexico	2021
United Kingdom	2021
Australia	2021

Our policy is to accrue interest and penalties on any uncertain tax position as a component of income tax expense. No such expenses were recognized during the three and nine months ended September 30, 2022 and 2021. We do not believe there will be any material changes in our uncertain tax positions over the next 12 months.

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

Our estimated effective tax rates for the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Effective Tax Rate	23.5%	23.2%	22.5%	23.0%

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 three and nine months ended September 30, 2022 and 2021 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(shares in thousands)	2022	2021	2022	2021
Basic - weighted average shares outstanding	7,319	7,370	7,313	7,304
Dilutive stock options	30	-(1)	69	132
Diluted - weighted average shares outstanding	7,349	7,370(2)	7,382	7,436
Anti-dilutive securities	236	25	117	25

(1) Due to a loss for the period, zero dilutive stock options are included because the effect would be antidilutive.

(2) Due to a loss for the period, zero dilutive stock options are included because the effect would be antidilutive.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the nine months ended September 30, 2022 and 2021 was as follows:

	Nine Months Ended September 30,	
($ in thousands)	2022	2021
Interest paid	$ 11,625	$ 4,736
Federal, state, and local income taxes paid, net	$ 4,191	$ 7,591
Change in contract receivables, net	$ 1,062	$ 3,272
Change in contract liabilities, net	$ (1,062)	$ (3,684)
Property, plant, and equipment purchases in accounts payable	$ 1,742	$ 2,129
Working capital true-up related to acquired business	$ -	$ 5,374

15. SEGMENT INFORMATION

We have identified three reportable segments: Wholesale, Retail and Contract Manufacturing. Our Wholesale segment includes sales of footwear and accessories to several classifications of retailers, including sporting goods stores, outdoor specialty stores, online retailers, marine stores, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Our Retail segment includes direct sales of our products to consumers through our e-commerce websites, marketplaces, our Rocky outlet store, and Lehigh businesses. Our Contract Manufacturing segment includes sales to the U.S. Military, private label sales and any sales to customers in which we are contracted to manufacture or source a specific footwear product for a customer. The following is a summary of segment results for the Wholesale, Retail, and Contract Manufacturing segments for the three and nine months ended September 30, 2022 and 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2022	2021	2022	2021
NET SALES:				
Wholesale	$ 120,742	$ 95,980	$ 385,858	$ 256,242
Retail	23,429	21,840	78,070	68,168
Contract Manufacturing	3,315	7,687	12,621	20,366
Total Net Sales	$ 147,486	$ 125,507	$ 476,549	$ 344,776
GROSS MARGIN:				
Wholesale	$ 40,007	$ 34,609	$ 128,775	$ 93,139
Retail	11,413	10,907	37,991	33,551
Contract Manufacturing	510	1,445	1,741	4,564
Total Gross Margin	$ 51,930	$ 46,961	$ 168,507	$ 131,254

16. GAIN CONTINGENCY

In June 2022, we became aware of a misclassification of Harmonized Tariff Schedule (HTS) codes filed with the U.S. Customs and Border Protection (U.S. Customs) on certain products imported into the U.S. associated with the Acquired Brands during 2021 and 2022. As a result of the misclassification of HTS codes we have paid duties in excess of the required amount. We are in the process of filing multiple post summary corrections with U.S. Customs to seek refunds of duties paid in excess of the correct HTS codes. As of September 30, 2022, we have the potential to recover the total amount of overpaid duties resulting in a potential refund of approximately $7.7 million. We are accounting for these post summary corrections as a gain contingency, and as such have not recorded these potential refunds within the accompanying unaudited condensed consolidated balance sheet due to uncertainty of collection. Any refunds received will be recognized as a reduction to the cost of goods sold when and if the refunds are received.

17. RESTRUCTURING CHARGES

In June 2022, we completed a cost savings review aimed at operating efficiencies to better position us for profitable growth. Following the integration of the Acquired Brands, we identified a number of operational synergies and cost savings opportunities, including a reduction in workforce.

During the three months ended September 30, 2022, the following activity was recorded:

($ in thousands)	Employee Severance, Benefits and Related Costs
Accrued expenses, July 1, 2022	$ 1,101
Restructuring charges	-
Cash payments	(553)
Accrued expenses, September 30, 2022	$ 548

During the nine months ended September 30, 2022, the following activity was recorded:

($ in thousands)		Employee Severance, Benefits and Related Costs
Accrued expenses, January 1, 2022		-
Restructuring charges	$	1,201
Cash payments		(653)
Accrued expenses, September 30, 2022	$	548

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

OVERVIEW

During the third quarter of 2022, we experienced strong sales growth for our brands and saw a decrease in gross margin compared to the year ago period due to rising product costs and shipping expenses. Operating expenses decreased in the third quarter 2022 due to a decrease in our discretionary spending and increased efficiencies at our distribution centers. The combination of increased sales and a decrease in operating costs has allowed us to better capitalize on the market opportunities we are creating through our product and focus on continued operational excellence.

We also completed the sale of the NEOS brand during the third quarter 2022. The sale of NEOS inventory is recorded within net sales and cost of goods sold within the Statement of Operations for the three and nine months ended September 30, 2022. The gain on sale of the all other NEOS assets is recorded as a reduction of operating expenses within the Statement of Operations for the three and nine months ended September 30, 2022.

During the first quarter of 2021, we closed on the Acquisition of the performance and lifestyle footwear business of Honeywell International Inc. We have incurred significant expenses associated with the Acquisition for the three and nine months ended September 30, 2022 and 2021.

COVID-19- We are monitoring and responding to the evolving nature of the global novel coronavirus pandemic (“COVID-19” or “pandemic”) and its impact to our global business. The health and safety of our team members is our top priority and to protect our employees, we are implementing all measures recommended by the Centers for Disease Control and Prevention (“CDC”). We will continue to proactively manage the Company and its operations through the pandemic, however we cannot predict the ultimate impact that COVID-19 will have on our short-term and long-term demand at this time, as it will depend on, among other things, the severity and duration of the COVID-19 pandemic. 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.

RESULTS OF OPERATIONS

The following tables set forth, for the periods indicated, information derived from our Unaudited Condensed Consolidated Financial Statements, expressed as a percentage of net sales. The discussion that follows each table should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements as well as our annual report on Form 10-K for the year ended December 31, 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	64.8	62.6	64.6	61.9
Gross margin	35.2	37.4	35.4	38.1
Operating expenses	27.3	35.2	29.0	32.9
Income from operations	7.9%	2.2%	6.4%	5.2%

Three Months Ended September 30, 2022 compared to Three Months Ended September 30, 2021

	Three Months Ended September 30,			
($ in thousands)	2022	2021	Inc./ (Dec.)	Inc./ (Dec.)
NET SALES:				
Wholesale	$ 120,742	$ 95,980	$ 24,762	25.8%
Retail	23,429	21,840	1,589	7.3
Contract Manufacturing	3,315	7,687	(4,372)	(56.9)
Total Net Sales	$ 147,486	$ 125,507	$ 21,979	17.5%

Included in Wholesale net sales for the three months ended September 30, 2022 was approximately $3.6 million of sales related to the sale of the NEOS inventory. The increase in net sales on an adjusted basis is due to increased demand supported by a healthy inventory position.

The increases in Retail sales was attributable to a strong growth in our Lehigh business in the third quarter of 2022 in both existing accounts and new accounts as businesses continued to re-open and get back to full capacity in the wake of the COVID-19 pandemic.

Contract Manufacturing sales decreased in the third quarter of 2022 due to the expiration of certain contracts with the U.S. Military.

	Three Months Ended September 30,		
($ in thousands)	2022	2021	Inc./ (Dec.)
GROSS MARGIN:			
Wholesale Margin $'s	$ 40,007	$ 34,609	$ 5,398
Margin %	*33.1%*	*36.1%*	*-3.0%*
Retail Margin $'s	$ 11,413	$ 10,907	$ 506
Margin %	*48.7%*	*49.9%*	*-1.2%*
Contract Manufacturing Margin $'s	$ 510	$ 1,445	$ (935)
Margin %	*15.4%*	*18.8%*	*-3.4%*
Total Margin $'s	$ 51,930	$ 46,961	$ 4,969
Margin %	*35.2%*	*37.4%*	*-2.2%*

Excluding $1.1 million of gross margin relating to the sale of NEOS inventory and $1.4 million of duties paid in excess of the correct HTS code (see Note 16), Wholesale gross margins in the third quarter of 2022 were 34.4%. Excluding $0.8 million inventory purchase accounting adjustment, Wholesale gross margin for the third quarter 2021 were 38.1%. The decrease in gross margin was due to an increase in product costs, inbound freight and logistics costs.

Retail gross margin decreased for the three months ended September 30, 2022 compared to the same period a year ago due to increased product costs and freight costs.

Contract Manufacturing gross margin decreased in the third quarter of 2022 compared to the prior year period due to increased product costs.

	Three Months Ended September 30,			
($ in thousands)	2022	2021	Inc./ (Dec.)	Inc./ (Dec.)
OPERATING EXPENSES:				
Operating Expenses	$ 40,305	$ 44,208	$ (3,903)	-8.8%
% of Net Sales	*27.3%*	*35.2%*	*-7.9%*	

On an adjusted based to exclude $0.8 million of acquisition-related amortization and expenses relating to the disposition of assets, operating expenses were $39.5 million and 27.4% of adjusted net sales for the three months ended September 30, 2022. On an adjusted basis to exclude $2.9 million acquisition-related integration and amortization costs, operating expenses were $41.3 million and 32.9% of adjusted net sales for the three months ended September 30, 2021. The decrease in operating expenses was due to a decrease in discretionary spending and increased efficiencies at our distribution centers.

	Three Months Ended September 30,			
($ in thousands)	2022	2021	Inc./ (Dec.)	Inc./ (Dec.)
INCOME TAXES:				
Income Tax Expense	$ 1,753	$ (113)	$ 1,866	1651.3%
Effective Tax Rate	*23.5%*	*23.2%*	*0.3%*	

The effective tax rate increased in the third quarter of 2022 compared to the same year ago period due to an increase in our projected tax rate for the year ended December 31, 2022 which is estimated to be 22.5%.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

	Nine Months Ended September 30,			
($ in thousands)	2022	2021	Inc./ (Dec.)	Inc./ (Dec.)
NET SALES:				
Wholesale	$ 385,858	$ 256,242	$ 129,616	50.6%
Retail	78,070	68,168	9,902	14.5
Contract Manufacturing	12,621	20,366	(7,745)	(38.0)
Total Net Sales	$ 476,549	$ 344,776	$ 131,773	38.2%

Included in Wholesale net sales for the nine months ended September 30, 2022 was approximately $3.6 million of sales related to the sale of the NEOS inventory. The increase in net sales on an adjusted based was due to increased demand supported by a healthy inventory position.

The increase in Retail sales was partially attributable to a strong growth in our Lehigh business in the first three quarters of 2022 as businesses continued to re-open and get back to full capacity in the wake of the COVID-19 pandemic. Our e-commerce business also increased sales in the first three quarters of 2022.

Contract Manufacturing sales decreased in the first three quarters of 2022 due to the expiration of certain contracts with the U.S. Military.

	Nine Months Ended September 30,		
($ in thousands)	2022	2021	Inc./ (Dec.)
GROSS MARGIN:			
Wholesale Margin $'s	$ 128,775	$ 93,139	$ 35,636
Margin %	*33.4%*	*36.3%*	*-2.9%*
Retail Margin $'s	$ 37,991	$ 33,551	$ 4,440
Margin %	*48.7%*	*49.2%*	*-0.5%*
Contract Manufacturing Margin $'s	$ 1,741	$ 4,564	$ (2,823)
Margin %	*13.8%*	*22.4%*	*-8.6%*
Total Margin $'s	$ 168,507	$ 131,254	$ 37,253
Margin %	*35.4%*	*38.1%*	*-2.7%*

Excluding $1.1 million of gross margin relating to the sale of NEOS inventory and $4.7 million of duties paid in excess of the correct HTS code (see Note 16), Wholesale gross margins in the third quarter of 2022 was 34.6%. Excluding $3.5 million inventory purchase accounting adjustment, Wholesale gross margin for the third quarter 2021 was 39.1%. The decrease in gross margin was due to an increase in product costs, inbound freight costs and logistics costs.

Retail gross margin decreased for the nine months ended September 30, 2022 compared to the same period a year ago due to increased product costs and freight costs.

Contract Manufacturing gross margin decreased in the nine months ended September 30, 2022 compared to the prior year period due to increased product costs.

	Nine Months Ended September 30,			
($ in thousands)	2022	2021	Inc./ (Dec.)	Inc./ (Dec.)
OPERATING EXPENSES:				
Operating Expenses	$ 138,089	$ 113,483	$ 24,606	21.7%
% of Net Sales	*29.0%*	*32.9%*	*-3.9%*	

On an adjusted basis to exclude $4.0 million of acquisition-related integration expenses and amortization, restructuring costs and expenses related to the disposition of assets, operating expenses were $134.1 million and 28.4% of adjusted net sales for the nine months ended September 30, 2022. On an adjusted basis to exclude $10.3 million a cquisition-related integration and amortization costs, operating expenses were $103.1 million and 29.9% of adjusted net sales for the nine months ended September 30, 2021. The decrease in operating expenses as a percent of net sales was due to a decrease in discretionary spending and increased efficiencies at our distribution centers.

	Nine Months Ended September 30,			
($ in thousands)	2022	2021	Inc./ (Dec.)	Inc./ (Dec.)
INCOME TAXES:				
Income Tax Expense	$ 4,057	$ 2,393	$ 1,664	69.5%
Effective Tax Rate	*22.5%*	*23.0%*	*-0.5%*	

We estimate that our tax rate will decrease to 22.5% for the year ended December 31, 2022 based on our actual results and additional foreign tax credits as a result of the Acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

During the nine months ended September 30, 2022, our primary source of cash was from borrowings under our credit facilities. Our working capital consists primarily of trade receivables and inventory, offset by debt and accounts payable. Our working capital fluctuates throughout the year as a result of our seasonal business cycle and business expansion and is generally lowest in the months of January through March of each year and highest during the months of May through October of each year. We typically utilize our revolving credit facility to fund our seasonal working capital requirements. As a result, balances on our revolving credit facility can fluctuate significantly throughout the year.

Our capital expenditures relate primarily to projects relating to our corporate offices, property, merchandising fixtures, molds and equipment associated with our manufacturing and distribution operations and for information technology. Capital expenditures were $7.4 million and $13.9 million for the nine months ended September 30, 2022 and 2021, respectively.

We lease certain machinery, one shoe center, distribution centers in Lancaster, Ohio, Reno, Nevada and manufacturing facilities under operating leases that generally provide for renewal options.

We believe that our ABL Facility, coupled with cash generated from operations will provide sufficient liquidity to fund our operations and debt obligations 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 see Note 11.

Cash Flows

	Nine Months Ended September 30,	
($ in millions)	2022	2021
Operating activities	$ (9.3)	$ (28.5)
Investing activities	(0.2)	(222.8)
Financing activities	10.9	235.9
Net change in cash and cash equivalents	$ 1.4	$ (15.4)

Operating Activities. Cash used in operating activities for the nine months ended September 30, 2022 was primarily used to purchase inventories and to pay down accounts payable. Cash used in operating activities for the nine months ended September 30, 2021 was primarily used to purchase inventories, partially offset by an increase in accounts payable.

Investing Activities. Cash used in investing activities for the nine months ended September 30, 2022 was primarily related to the purchase of equipment associated with our manufacturing operations, for upgrades to information technology and for improvements to our distribution facility, partially offset by the proceeds from the sale of the NEOS brand (see Note 5). Cash used in investing activities for the nine months ended September 30, 2021 was used to fund the Acquisition. See Note 4 for additional information regarding the Acquisition.

Financing Activities. Cash provided by financing activities for the nine months ended September 30, 2022 was primarily related to proceeds from our revolving credit facility. Cash provided by financing activities for the nine months ended September 30, 2021 was primarily related to proceeds from our term credit facility and revolving credit facility.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We have identified the critical accounting policies used in determining estimates and assumptions in the amounts reported in our Management Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2021.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES REFORM ACT OF 1995

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief, and expectations, such as statements concerning our future profitability and our operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "likely," "would," "could" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that 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, cybersecurity breaches or disruption of our digital systems, fluctuations in foreign currency exchange rates, economic changes, as well as other factors set forth under the caption "Item 1A, Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 (filed March 15, 2022) and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2022 (filed May 9, 2022), and June 30, 2022 (filed August 9, 2022), and other factors detailed from time to time in our filings with the Securities and Exchange Commission. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We assume no obligation to update any forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes to our market risk as disclosed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 4. CONTROLS AND PROCEDURES.

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

As of the end of the period covered by this report, our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 and 15d-15 promulgated under the Exchange Act. Based upon this evaluation, our chief executive officer and our chief financial officer concluded that, as of September 30, 2022, our disclosure controls and procedures were (1) designed to ensure that material information relating to our Company is accumulated and made known to our management, including our chief executive officer and chief financial officer, in a timely manner, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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

Changes in Internal Controls There have been no material changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have made the necessary and appropriate updates to our internal controls as it relates to financial reporting over our Acquired Brands, none of which were material.

PART II -- OTHER INFORMATION

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Not applicable.

Our shareholder repurchase program expired on March 4, 2022.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1***	Third Amendment to ABL Loan and Security Agreement, dated November 2, 2022, between the Company, Bank of America, N.A. and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated November 2, 2022 and filed on November 3, 2022).
10.2***	Third Amendment to Term Loan and Security Agreement, dated November 2, 2022, between the Company, TCW Asset Management Company, LLC and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated November 2, 2022 and filed on November 3, 2022).
31.1*	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Principal Executive Officer.
31.2*	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 formatted in Inline XBRL ("eXtensible Business Reporting Language"): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Shareholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related notes to these financial statements.
104*	Cover Page Interactive Data File, formatted in Inline XBRL and contained in Exhibit 101

* Filed with this Report.
** Furnished with this Report.
*** Exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant hereby undertakes to furnish copies of any omitted schedules or exhibits upon request of the U.S. Securities and Exchange Commission.

SIGNATURE

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

ROCKY BRANDS, INC.

Date: November 8, 2022

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

Exhibit 31.1

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

I, Jason Brooks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: November 8, 2022
/s/ Jason Brooks
Jason Brooks
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

I, Tom Robertson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: November 8, 2022
/s/ Thomas D. Robertson
Thomas D. Robertson
Chief Operating Officer, Chief Financial Officer
and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32

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

In connection with the Quarterly Report of Rocky Brands, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned hereby certifies, pursuant to Section 1350 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Jason Brooks
Jason Brooks
Chief Executive Officer (Principal Executive Officer)
November 8, 2022

/s/ Thomas D. Robertson
Thomas D. Robertson
Chief Operating Officer, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)
November 8, 2022