

ROCKY BRANDS, INC.  
Form 10-Q  
October 28, 2010

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, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-34382

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

Ohio  
(State or Other Jurisdiction of  
Incorporation or Organization)

31-1364046  
(I.R.S. Employer  
Identification No.)

39 E. Canal Street, Nelsonville, Ohio 45764  
(Address of Principal Executive Offices, Including Zip Code)

(740) 753-1951  
(Registrant's Telephone Number, Including Area Code)

Not Applicable  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark 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 such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

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

Edgar Filing: ROCKY BRANDS, INC. - Form 10-Q

(Do not check if a smaller reporting company)

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

As of October 25, 2010, 7,409,537 shares of Rocky Brands, Inc. common stock, no par value, were outstanding.

---

## FORM 10-Q

## ROCKY BRANDS, INC.

## TABLE OF CONTENTS

	PAGE NUMBER
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1.</b>	<b>Financial Statements</b>
	Condensed Consolidated Balance Sheets September 30, 2010 and 2009 (Unaudited), and December 31, 2009
	3
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009 (Unaudited)
	4
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009 (Unaudited)
	5
	Notes to the Interim Unaudited Condensed Consolidated Financial Statements for the Three-Month and Nine-Month Periods Ended September 30, 2010 and 2009
	6 – 16
<b>Item 2.</b>	<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b>
	17 – 23
<b>Item 3.</b>	<b>Quantitative and Qualitative Disclosures About Market Risk</b>
	24
<b>Item 4.</b>	<b>Controls and Procedures</b>
	24
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1.</b>	<b>Legal Proceedings</b>
	25
<b>Item 1A.</b>	<b>Risk Factors</b>
	25
<b>Item 2.</b>	<b>Unregistered Sales of Equity Securities and Use of Proceeds</b>
	25
<b>Item 3.</b>	<b>Defaults Upon Senior Securities</b>
	25
<b>Item 4.</b>	<b>Reserved</b>
	25
<b>Item 5.</b>	<b>Other Information</b>
	25

Item 6.	Exhibits	25
SIGNATURE		26

PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS

ROCKY BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2010 December 31, 2009 September 30, 2009  
(Unaudited) (Unaudited)

ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,965,906	\$ 1,797,093	\$ 4,002,909
Trade receivables – net	61,261,175	45,831,558	58,296,661
Other receivables	1,319,589	1,476,643	1,598,829
Inventories	62,913,777	55,420,467	68,065,444
Deferred income taxes	1,490,601	1,475,695	2,173,391
Prepaid and refundable income taxes	-	-	247,011
Prepaid expenses	1,494,653	1,309,138	1,323,115
Total current assets	132,445,701	107,310,594	135,707,360
FIXED ASSETS – net	22,114,258	22,669,876	23,132,489
IDENTIFIED INTANGIBLES	30,504,785	30,516,910	30,627,527
OTHER ASSETS	1,896,914	2,892,683	3,304,123
TOTAL ASSETS	\$ 186,961,658	\$ 163,390,063	\$ 192,771,499

LIABILITIES AND SHAREHOLDERS' EQUITY:

CURRENT LIABILITIES:			
Accounts payable	\$ 9,449,927	\$ 6,781,534	\$ 7,683,778
Current maturities – long term debt	508,376	511,870	503,841
Accrued expenses:			
Salaries and wages	2,624,978	343,345	1,161,324
Co-op advertising	63,222	460,190	795,147
Interest	497,641	471,091	1,648,116
Income taxes payable	2,280,900	26,242	-
Taxes - other	490,978	440,223	387,817
Commissions	541,389	487,340	341,903
Current portion of pension funding	700,000	700,000	-
Other	2,185,406	2,764,783	2,041,371
Total current liabilities	19,342,817	12,986,618	14,563,297
LONG TERM DEBT – less current maturities	52,910,608	55,079,776	82,940,392
DEFERRED INCOME TAXES	9,060,211	9,071,639	9,558,761
DEFERRED PENSION LIABILITY	3,735,674	3,589,875	3,919,603
DEFERRED LIABILITIES	189,719	184,481	197,010
TOTAL LIABILITIES	85,239,029	80,912,389	111,179,063

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

Common stock, no par value;

Edgar Filing: ROCKY BRANDS, INC. - Form 10-Q

25,000,000 shares authorized; issued and outstanding  
 September 30, 2010 - 7,409,537; December 31, 2009 -  
 5,576,465 and September 30, 2009 - 5,547,215

	68,927,984	54,598,104	54,387,752
Accumulated other comprehensive loss	(2,947,290)	(3,217,144)	(2,982,564)
Retained earnings	35,741,935	31,096,714	30,187,248
Total shareholders' equity	101,722,629	82,477,674	81,592,436
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 186,961,658	\$ 163,390,063	\$ 192,771,499

See notes to the interim unaudited condensed consolidated financial statements.

ROCKY BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
NET SALES	\$ 74,760,244	\$ 66,572,437	\$ 186,062,284	\$ 167,825,613
COST OF GOODS SOLD	47,575,649	41,856,651	121,021,756	105,299,667
GROSS MARGIN	27,184,595	24,715,786	65,040,528	62,525,946
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	19,159,541	18,576,780	53,347,582	56,642,081
INCOME FROM OPERATIONS	8,025,054	6,139,006	11,692,946	5,883,865
OTHER INCOME AND (EXPENSES):				
Interest expense, net	(955,033)	(1,955,485)	(4,721,176)	(5,665,905)
Other - net	246,334	224,442	286,451	257,899
Total other - net	(708,699)	(1,731,043)	(4,434,725)	(5,408,006)
INCOME BEFORE INCOME TAXES	7,316,355	4,407,963	7,258,221	475,859
INCOME TAX EXPENSE	2,634,000	1,626,518	2,613,000	210,518
NET INCOME	\$ 4,682,355	\$ 2,781,445	\$ 4,645,221	\$ 265,341
NET INCOME PER SHARE				
Basic	\$ 0.63	\$ 0.50	\$ 0.71	\$ 0.05
Diluted	\$ 0.63	\$ 0.50	\$ 0.71	\$ 0.05
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	7,407,409	5,547,215	6,522,058	5,546,993
Diluted	7,422,194	5,547,215	6,541,192	5,546,993

See notes to the interim unaudited condensed consolidated financial statements.

ROCKY BRANDS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Nine Months Ended September 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 4,645,221	\$ 265,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,209,421	4,772,894
Deferred pension and other	420,891	395,792
Deferred income taxes	(26,334)	114,415
Loss on disposal of fixed assets	14,038	7,169
Stock compensation expense	129,900	137,688
Change in assets and liabilities		
Receivables	(15,272,563)	1,632,238
Inventories	(7,493,310)	2,236,730
Other current assets	(185,515)	(39,487)
Other assets	1,145,769	660,878
Accounts payable	2,740,554	(2,140,244)
Accrued and other liabilities	3,691,301	1,472,318
Net cash (used in) provided by operating activities	(5,980,627)	9,515,732
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(3,729,619)	(3,997,487)
Investment in trademarks and patents	(23,118)	(43,777)
Proceeds from sale of fixed assets	24,860	25,058
Net cash used in investing activities	(3,727,877)	(4,016,206)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolving credit facility	196,671,708	165,575,147
Repayments of revolving credit facility	(169,463,530)	(169,512,854)
Debt financing costs	(150,000)	(1,512,500)
Repayments of long-term debt	(29,380,841)	(357,723)
Issuance of common stock, net of issuance costs	14,105,600	-
Proceeds from exercise of stock options	94,380	-
Net cash provided by (used in) financing activities	11,877,317	(5,807,930)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,168,813	(308,404)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,797,093	4,311,313
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,965,906	\$ 4,002,909

See notes to the interim unaudited condensed consolidated financial statements.





ROCKY BRANDS, INC.  
AND SUBSIDIARIES

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

1. INTERIM FINANCIAL REPORTING

In the opinion of management, the accompanying interim 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 interim condensed consolidated financial statements are considered to be of a normal and recurring nature. The results of the operations for the three-month and nine-month periods ended September 30, 2010 and 2009 are not necessarily indicative of the results to be expected for the whole year. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

The components of total comprehensive income are shown below:

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	\$ 4,682,355	\$ 2,781,445	\$ 4,645,221	\$ 265,341
Other comprehensive income:				
Amortization of unrecognized transition obligation, service cost and net loss	89,952	79,884	269,854	239,651
Total comprehensive income	\$ 4,772,307	\$ 2,861,329	\$ 4,915,075	\$ 504,992

2. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately \$1,048,000, \$1,178,000 and \$1,134,000 at September 30, 2010, December 31, 2009 and September 30, 2009, respectively. The allowance for uncollectible accounts is calculated based on the relative age and size of trade receivable balances.

3. INVENTORIES

Inventories are comprised of the following:

	September 30, 2010 (Unaudited)	December 31, 2009	September 30, 2009 (Unaudited)
Raw materials	\$ 10,641,734	\$ 5,438,055	\$ 7,685,583
Work-in-process	732,910	497,914	671,388
Finished goods	51,586,413	49,522,542	59,764,173
Reserve for obsolescence or lower of cost or market	(47,280)	(38,044)	(55,700)
Total	\$ 62,913,777	\$ 55,420,467	\$ 68,065,444

4. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

(Unaudited)  
 Nine Months Ended  
 September 30,  
 2010                      2009