

ROCKY BRANDS, INC.
Form 10-K
March 12, 2018
Table of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

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 1951

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

Title of each class	Name of each exchange on which registered
Common Shares, without par value	The NASDAQ Stock Market, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes No

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

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

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, 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company (as defined in Exchange Act Rule 12b-2). (Check one):

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

(Do not check if a smaller reporting 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

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$89,930,896 on June 30, 2017.

There were 7,410,761 shares of the Registrant's Common Stock outstanding on February 28, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference in Part III.

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	14
Item 3. <u>Legal Proceedings</u>	14
Item 4. <u>Mine Safety Disclosures</u>	14
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	15
Item 6. <u>Selected Consolidated Financial Data</u>	17
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 8. <u>Financial Statements and Supplementary Data</u>	26
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	48
Item 9A. <u>Controls and Procedures</u>	48
Item 9B. <u>Other Information</u>	48
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	50
Item 11. <u>Executive Compensation</u>	50
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	50
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	50
Item 14. <u>Principal Accounting Fees and Services</u>	50
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	51
<u>SIGNATURES</u>	54
<u>Appendix A: Financial Statement Schedule</u>	55

Table of Contents

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

PART I

ITEM 1. BUSINESS.

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

We are a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky, Georgia Boot, Durango, Lehigh, and the licensed brand Michelin. Our brands have a long history of representing high quality, comfortable, functional and durable footwear and our products are organized around six target markets: outdoor, work, duty, commercial military, western and lifestyle. Our footwear products incorporate varying features and are positioned across a range of suggested retail price points from \$19.99 for our value priced products to \$298.99 for our premium products. In addition, as part of our strategy of outfitting consumers from head-to-toe, we market complementary branded apparel and accessories that we believe leverage the strength and positioning of each of our brands.

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

Competitive Strengths

Our competitive strengths include:

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

Table of Contents

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

Growth Strategy

We intend to increase our sales through the following strategies:

- Expand into new target markets under existing brands. We believe there is significant opportunity to extend certain of our brands into our other target markets. We intend to continue to introduce products across varying feature sets and price points in order to meet the needs of our retailers.
- Cross-sell our brands to our retailers. We believe that many retailers of our existing and acquired brands target consumers with similar characteristics and, as a result, we believe there is significant opportunity to offer each of our retailers a broader assortment of footwear and apparel that target multiple markets and span a range of feature sets and price points.
- Expand business internationally. We intend to extend certain of our brands into international markets. We believe this is a significant opportunity because of the long history and authentic heritage of these brands. We intend on growing our business internationally through a network of distributors.
- Increases in our Lehigh business. We believe that our business to business CustomFit platform has ample opportunity to grow as we continue to pursue large manufacturers, distributors, and other companies who are reliant on safety footwear programs. We feel that diversifying our product lines and continuing to provide an easy, no hassle approach to purchasing, will allow us to expand within the market.
- Acquire or develop new brands. We intend to continue to acquire or develop new brands that are complementary to our portfolio and could leverage our operational infrastructure and distribution network.

Product Lines

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

- **Outdoor.** Our outdoor product lines consist of footwear, apparel and accessory items marketed to outdoor enthusiasts who spend time actively engaged in activities such as hunting, fishing, camping and hiking. Our consumers demand high quality, durable products that incorporate the highest level of comfort and the most advanced technical features, and we are committed to ensuring our products reflect the most advanced designs, features and materials available in the marketplace. Our outdoor product lines consist of all-season sport/hunting footwear, apparel and accessories that are typically waterproof and insulated and are designed to keep outdoor enthusiasts comfortable on rugged terrain or in extreme weather conditions.
- **Work.** Our work product lines consist of footwear and apparel marketed to industrial and construction workers, as well as workers in the hospitality industry, such as restaurants or hotels. All of our work products are specially designed to be comfortable, incorporate safety features for specific work environments or tasks and meet applicable federal and other standards for safety. This category includes products such as safety toe footwear for industrial and construction workers and non-slip footwear for hospitality workers.
- **Duty.** Our duty product line consists of footwear products marketed to law enforcement, security personnel and postal employees who are required to spend a majority of time at work on their feet. All of our duty footwear styles are designed to be comfortable, flexible, lightweight, slip resistant and durable. Duty footwear is generally designed to fit as part of a uniform and typically incorporates stylistic features, such as black leather uppers in addition to the comfort features that are incorporated in all of our footwear products.
- **Commercial Military.** Our commercial military product line consists of footwear products marketed to military personnel as a substitute for the government issued military boots. Our commercial military boots are designed to be comfortable, lightweight, and durable and are marketed under the Rocky brand name.

Table of Contents

- Western. Our western product line currently consists of authentic footwear products marketed to farmers and ranchers who generally live in rural communities in North America. We also selectively market our western footwear to consumers enamored with the western lifestyle.
- Lifestyle. Our lifestyle product line currently consists of footwear products marketed to more fashion minded urban consumers.
- U.S. Military. Our U.S. Military product line consists of footwear products designed specifically for U.S. military personnel. These footwear products are designed and manufactured to meet the rigorous specification requirements, which include lightweight, durable, waterproof footwear products manufactured in the U.S.A. The U.S. Military products are marketed under the Rocky Brand name.

Our products are marketed under four well-recognized, proprietary brands, Rocky, Georgia Boot, Durango, and Lehigh, in addition to the licensed brand Michelin.

Rocky

Rocky, established in 1979, is our premium priced line of branded footwear, apparel and accessories. We currently design Rocky products for each of our seven target markets and offer our products at a range of suggested retail price points: \$49.99 to \$298.99 for our footwear products, \$24.99 to \$239.99 for tops and bottoms in our apparel lines and \$6.99 to \$59.99 for our basic and technical outerwear.

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

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

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

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

Georgia Boot

Georgia Boot was launched in 1937 and is our moderately priced, high quality line of work footwear. Georgia Boot footwear is sold at suggested retail price points ranging from \$69.99 to \$269.99. This line of products primarily targets construction workers and those who work in industrial plants where special safety features are required for hazardous work environments. Many of our boots incorporate steel toes or metatarsal guards to protect wearers' feet from heavy objects and non-slip outsoles to prevent slip related injuries in the work place. All of our boots are designed to help prevent injury and subsequent work loss and are designed according to standards determined by the Occupational Safety & Health Administration or other standards required by employers.

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

We believe the Georgia Boot brand can be extended into moderately priced duty footwear as well as outdoor and work apparel.

Table of Contents

Durango

Durango is our moderately priced, high quality line of western footwear. Launched in 1965, the brand has developed broad appeal and earned a reputation for authenticity and quality in the western footwear and apparel market. Our current line of products is offered at suggested retail price points ranging from \$19.99 to \$209.99, and we market products designed for both work and casual wear. Our Durango line of products primarily targets farm and ranch workers who live in the heartland where western influenced footwear and apparel is worn for work and casual wear and, to a lesser extent, this line appeals to urban consumers enamored with western influenced fashion. Many of our western boots marketed to farm and ranch workers are designed to be durable, including special “barn yard acid resistant” leathers to maintain integrity of the uppers, and incorporate our proprietary “Comfort Core” system to increase ease of wear and reduce foot fatigue. Other products in the Durango line that target casual and fashion oriented consumers have colorful leather uppers and shafts with ornate stitch patterns and are offered for men, women and children.

Lehigh

The Lehigh brand was launched in 1922 and is our moderately priced, high quality line of safety shoes sold at suggested retail price points ranging from \$78.99 to \$233.99. Our current line of products is designed to meet occupational safety footwear needs. Most of this footwear incorporates steel toes to protect workers and often incorporates other safety features such as metatarsal guards or non-slip outsoles. Additionally, certain models incorporate durability features to combat abrasive surfaces or caustic substances often found in some work places.

With the shift in manufacturing jobs to service jobs in the U.S., Lehigh began marketing products for the hospitality industry. These products have non-slip outsoles designed to reduce slips, trips and falls in hospitality environments where floors are often tiled and greasy. Price points for this kind of footwear range from \$39.99 to \$86.99.

Michelin

Michelin is a premier price point line of work footwear targeting specific industrial professions, primarily indoor professions. The license to design, develop and manufacture footwear under the Michelin name was secured in 2006. Suggested retail prices for the Michelin brand are from \$34.99 to \$249.99. The license agreement for the Michelin brand expired on December 31, 2017, with the option to renew. We are currently working with Michelin on extending our agreement.

Sales and Distribution

Our products are distributed through three distinct business segments: wholesale, retail and military. See Note 15 of our consolidated financial statement for more information regarding our three business segments.

Wholesale

In the U.S., we distribute Rocky, Georgia Boot, Durango, and Michelin products through a wide range of wholesale distribution channels. As of December 31, 2017, our products were offered for sale at over 10,000 retail locations in the U.S. and Canada.

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

Our wholesale distribution channels vary by market:

- Our outdoor products are sold primarily through sporting goods stores, outdoor specialty stores, online retailers, catalogs, and mass merchants.
- Our work-related products are sold primarily through retail uniform stores, catalogs, farm store chains, specialty safety stores, independent shoe stores, hardware stores and online retailers.
- Our duty products are sold primarily through uniform stores, catalog specialists and online retailers.

Table of Contents

- Our commercial military products are sold primarily through base exchanges such as AAFES and consumer e-commerce websites.
- Our western products are sold through western stores, work specialty stores, specialty farm and ranch stores, online retailers and more recently, fashion oriented footwear retailers.

Retail

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

Websites

We sell our product lines on our websites at www.rockyboots.com, www.georgiaboot.com, www.durangoboot.com, www.lehighoutfitters.com, www.lehighsafetyshoes.com, www.slipgrips.com, and 4eursole.com. We believe that our internet presence allows us to showcase the breadth and depth of our product lines in each of our target markets and enables us to educate our consumers about the unique technical features of our products. We also sell to our business customers directly through our Custom Fit websites that are tailored to the specific needs of our customers. Our customers' employees order directly through their employers' established Custom Fit website and the footwear is delivered directly to the consumer via a common freight carrier. Our customers include large, national companies such as Carnival Cruise Lines, Pepsi, Schneider, Whirlpool, Holland America Cruise Lines, and Waste Management.

Outlet Store

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

Retail Stores

Lehigh's successful continued focus on converting our customers from delivery via our mobile and retail stores to purchasing via our Custom Fit sites and delivery direct has led to the continued reduction of the mobile and retail stores in the past several years. In 2018, we will no longer continue to service the New York City Transit Authority with mobile stores.

Military

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

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

Marketing and Advertising

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

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

Table of Contents

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

Product Design and Development

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

Manufacturing and Sourcing

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

Quality control is stressed at every stage of the manufacturing process and is monitored by trained quality assurance personnel at each of our manufacturing facilities, including our third-party factories. In addition, we utilize a team of procurement, quality control and logistics employees in our China office to visit factories to conduct quality control

reviews of raw materials, work in process inventory and finished goods. We also utilize quality control personnel at our finished goods distribution facilities to conduct quality control testing on incoming sourced finished goods and raw materials and inspect random samples from our finished goods inventory from each of our manufacturing facilities to ensure that all items meet our high-quality standards.

Foreign Operations and Sales Outside of the United States

Our products are primarily distributed in the United States, Canada, South America, Europe, Australia and Asia. We ship our products from our finished goods distribution facility located in Logan, Ohio and third-party logistics operations in Sumner, Washington and Ontario, Canada. In early 2018 the Washington and Canada logistics operations will be wound down and closed. Certain of our retailers receive shipments directly from our manufacturing sources, including all of our U.S. military sales, which are shipped directly from our manufacturing facilities in Puerto Rico. Net sales to foreign countries represented approximately 3.0% of net sales in 2017, 2.8% of net sales in 2016, and 4.8% of net sales in 2015.

As previously mentioned, we maintain manufacturing facilities that we operate in the Dominican Republic and Puerto Rico. In addition, we utilize an office in China to support our contract manufacturers.

The net book value of fixed assets located outside of the U.S. totaled \$3.2 million at December 31, 2017, \$3.7 million at December 31, 2016, and \$4.1 million at December 31, 2015.

Suppliers

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

Table of Contents

Seasonality and Weather

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

Backlog

(\$ in millions)	Years Ended	
	December 31,	
	2017	2016
Wholesale Backlog	\$ 16.3	\$ 16.7
Military Backlog	26.2	0.3
Total Backlog	\$ 42.5	\$ 17.0

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

Patents, Trademarks and Trade Names

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

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

Our license with Michelin Lifestyle Limited permits us to use the Michelin brand and related marks on our products. Our license agreement with Michelin Lifestyle Limited to use the Michelin name expired on December 31, 2017, with the option to renew. We are currently working with Michelin on extending our agreement.

In the U.S., our patents are generally in effect for up to 20 years from the date of the filing of the patent application. Our trademarks are generally valid as long as they are in use and their registrations are properly maintained and have not been found to become generic. Trademarks registered outside of the U.S. generally have a duration of 10 years depending on the jurisdiction and are also generally subject to an indefinite number of renewals for a like period upon appropriate application.

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

Competition

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

Table of Contents

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

Employees

At December 31, 2017, we had approximately 2,079 employees of which approximately 2,061 are full time employees. Approximately 1,728 of our employees work in our manufacturing facilities in the Dominican Republic and Puerto Rico. None of our employees are represented by a union. We believe our relations with our employees are good.

Available Information

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

ITEM 1A. RISK FACTORS.

Business Risks

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

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

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

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

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

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

- the imposition of additional United States legislation and regulations relating to imports, including quotas, duties, taxes or other charges or restrictions;
- foreign governmental regulation and taxation;
- fluctuations in foreign exchange rates;
- changes in economic conditions;
- transportation conditions and costs in the Pacific and Caribbean;

Table of Contents

- changes in the political stability of these countries; and
- changes in relationships between the United States and these countries.

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

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

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

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

We conduct a portion of our business pursuant to U.S. military contracts which are subject to unique risks. In 2017, 15.1% of our revenues were earned pursuant to U.S. military contracts. Business conducted pursuant to such contracts is subject to extensive procurement regulations and other unique risks. The U.S. military may modify, curtail or choose not to renew one or more of our contracts. In addition, funding pursuant to our U.S. military contracts may be reduced or withheld as part of the U.S. Congressional appropriations process due to fiscal constraints and/or changes in U.S. military strategy. Our contracts with the U.S. military are fixed-price contracts. While fixed price contracts enable us to benefit from performance improvements, cost reductions and efficiencies, they also subject us to the risk of reduced margins or incurring losses if we are unable to achieve estimated costs and revenues. The U.S. military provides preference on contract bids to small businesses and our current company structure classifies us as a large business which could have an effect on our ability to be awarded new contracts in the future.

Our success depends on our ability to anticipate consumer trends.

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

receivable. Accordingly, opportunities for increasing our cash on hand through sales of inventory would be partially offset by reduced availability under our revolving credit facility. As a result, we may not be able to finance our current expansion plans.

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

Our credit facility requires us to comply with certain financial restrictive covenants that impose restrictions on our operations, including our ability to incur additional indebtedness, make investments of other restricted payments, sell or otherwise dispose of assets and engage in other activities. Any failure by us to comply with the restrictive covenants could result in an event of default under those borrowing arrangements, in which case the lenders could elect to declare all amounts outstanding thereunder to be due and payable, which could have a material adverse effect on our financial condition. Our credit facility contains a restrictive covenant which requires us to maintain a fixed charge coverage ratio. This restrictive covenant is only in effect upon a triggering event taking place (as defined in the credit facility agreement). At December 31, 2017, there was no triggering event and the covenant was not in effect.

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

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

Table of Contents

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

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

We rely on our distribution center in Logan, Ohio and if there is a natural disaster or other serious disruption at this facility, we may be unable to deliver merchandise effectively to our retailers.

We rely on our distribution center located in Logan, Ohio. Any natural disaster or other serious disruption at any of this facility due to fire, tornado, flood, terrorist attack or any other cause could damage a portion of our inventory or impair our ability to use our distribution center as a docking location for merchandise. Either of these occurrences could impair our ability to adequately supply our retailers and harm our operating results.

We are subject to certain environmental and other regulations.

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

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

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

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

Our success depends on our ability to forecast sales.

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

Table of Contents

A privacy breach could have a material adverse effect on the Company's business and reputation.

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

Our dividend policy may change.

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

Risks Related to Our Industry

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

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

- general business conditions;

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

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

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

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

Table of Contents

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own our 25,000 square foot executive offices that are located in Nelsonville, Ohio, which are utilized by all segments. We also own our 192,000 square foot finished goods distribution facility in Logan, Ohio, which is utilized by our wholesale and retail segments. We also own our 41,000 square foot outlet store and a 5,500 square foot executive office building located in Nelsonville, Ohio, a portion of which is utilized by our retail segment. We lease two manufacturing facilities in Puerto Rico consisting of 44,978 square feet and 39,581 square feet which are utilized by the wholesale and military segments. These leases expire in 2019. In the Dominican Republic, we lease seven stand-alone manufacturing facilities, which are utilized by all segments, as follows:

Square Footage	Lease Expiration
28,684	2018
34,373	2018
20,135	2018
93,097	2019
36,186	2019

23,476	2020
16,797	2021

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock trades on the NASDAQ Global Select Market under the symbol "RCKY." The following table sets forth the range of high and low sales prices for our common stock for the periods indicated, as reported by the NASDAQ Global Select Market:

Quarter Ended	High	Low	Dividends Per Share
March 31, 2016	\$ 13.55	\$ 9.67	\$ 0.11
June 30, 2016	\$ 13.95	\$ 10.70	\$ 0.11
September 30, 2016	\$ 12.68	\$ 10.17	\$ 0.11
December 31, 2016	\$ 11.65	\$ 9.95	\$ 0.11
March 31, 2017	\$ 12.80	\$ 10.25	\$ 0.11
June 30, 2017	\$ 15.70	\$ 10.70	\$ 0.11
September 30, 2017	\$ 15.00	\$ 12.20	\$ 0.11
December 31, 2017	\$ 20.15	\$ 13.40	\$ 0.11

On February 28, 2018, the last reported sales price of our common stock on the NASDAQ Global Select Market was \$18.40 per share. As of February 28, 2018, there were 79 shareholders of record of our common stock.

Dividends

During 2013, our board of directors adopted a dividend policy under which the Company intends to pay a cash dividend on its common stock. Dividends paid were as follows:

	For the years ended December 31,		
	2017	2016	2015
Dividends Paid	\$ 3,269,418	\$ 3,297,066	\$ 3,252,254

Table of Contents

Performance Graph

The following performance graph compares our performance of the Company with the NASDAQ Composite Index and the Standard & Poor's Footwear Index, which is a published industry index. The comparison of the cumulative total return to shareholders for each of the periods assumes that \$100 was invested on December 31, 2012, in our common stock, and in the NASDAQ Stock Market (U.S.) Index and the Standard & Poor's Footwear Index and that all dividends were reinvested.

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

Period	Total number of shares purchased (1)	Average price paid per share (or unit)	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (2)
October 1, 2017			
- October 31, 2017	2,717	\$ 13.46	\$ 6,811,663
November 1, 2017			
- November 30, 2017	-	-	6,811,663
December 1, 2017			
- December 31, 2017	-	-	6,811,663
Total	2,717	\$ 13.46	\$ 6,811,663

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

In March 2017, the Company announced a \$7,500,000 share repurchase plan. The repurchase program terminated on March 1, 2018. On March 1, 2018, the Company announced a new \$7,500,000 share repurchase program that will replace the 2017 plan and will expire on March 1, 2019.

Table of Contents

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

ROCKY BRANDS, INC. AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA

(\$ in thousands, except for per share data)	For the years ended December 31,				
	2017	2016	2015	2014	2013
Income statement data					
Net sales	\$ 253,197	\$ 260,259	\$ 269,302	\$ 286,242	\$ 244,871
Gross margin (% of sales)	31.9 %	29.5 %	33.0 %	33.7 %	34.1 %
Net income (loss)	\$ 9,587	\$ (2,139)	\$ 6,603	\$ 9,845	\$ 7,373
Dividends paid on common stock	3,269	3,297	3,252	3,018	2,255
Earnings per share					
Net income					
Basic	\$ 1.29	\$ (0.29)	\$ 0.87	\$ 1.30	\$ 0.98
Diluted	1.29	(0.29)	0.87	1.30	0.98
Weighted average common shares outstanding					
Basic	7,428	7,505	7,563	7,545	7,517
Diluted	7,450	7,505	7,574	7,548	7,517
Balance sheet data					
Inventory	\$ 65,622	\$ 69,168	\$ 76,991	\$ 85,237	\$ 78,172
Total assets	\$ 173,479	\$ 178,939	\$ 192,833	\$ 213,228	\$ 199,025
Working capital	\$ 99,160	\$ 101,060	\$ 113,442	\$ 124,773	\$ 118,242
Long-term debt, less current maturities	\$ 2,199	\$ 14,584	\$ 23,700	\$ 36,270	\$ 38,388
Shareholders' equity	\$ 141,093	\$ 135,093	\$ 142,121	\$ 138,348	\$ 131,213

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") describes the matters that we consider to be important to understanding the results of our operations for each of the three years in the period ended December 31, 2017, and our capital resources and liquidity as of December 31, 2017 and 2016. Use of the terms "Rocky," the "Company," "we," "us" and "our" in this discussion refer to Rocky Brands, Inc. and its subsidiaries. Our fiscal year begins on January 1 and ends on December 31. We analyze the results of our operations for the last three years, including the trends in the overall business followed by a discussion of our cash flows and liquidity, our credit facility, and contractual commitments. We then provide a review of the critical accounting judgments and estimates that we have made that we believe are most important to an understanding of our MD&A and our consolidated financial statements. We conclude our MD&A with information on recent accounting pronouncements which we adopted during the year, as well as those not yet adopted that are expected to have an impact on our financial accounting practices.

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

EXECUTIVE OVERVIEW

We are a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky, Georgia Boot, Durango, Lehigh, and the licensed brand Michelin.

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

Rocky label to the U.S. military.

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

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

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

FINANCIAL SUMMARY

- Net sales of the wholesale segment decreased \$10.3 million in 2017 from prior year primarily due to decreased sales in our work and commercial military categories. The decrease in 2017 is primarily due to the discontinuation of a private label work program in the third quarter of 2016 and a decrease in commercial military sales in the second and third quarter of 2017 as we were unable to anniversary the large initial sell-ins of new boots that took place in 2016 when the color pattern changed from tan to coyote.

Table of Contents

- Net sales of the retail segment increased \$2.4 million in 2017 from the prior year primarily as a result of a significant increase in our Lehigh business which includes our business to business web platforms.
- Net sales of the military segment increased \$0.8 million in 2017 from the prior year which resulted in a record year. From time to time, we bid on military contracts when they become available. Our sales under such contracts are dependent on us winning the bids for these contracts and the purchase orders received on these contracts. We are currently fulfilling several multiyear contracts for the U.S. military.
- Gross margin of the wholesale segment increased \$0.7 million in 2017 from the prior year as a result of higher margins due to a combination of better full price selling, less discounting and the discontinuation of a lower margin private label program. Gross margin of the wholesale segment as a percent of sales for 2017 was 230 basis points more than the prior year.
- Retail gross margin for 2017 was \$21.2 million or 43.8%, compared to \$21.1 million or 45.9% in 2016. The 210 basis point decrease was largely due to the increase in our Lehigh sales which carries a lower margin than our e-commerce business.
- Gross margin of the military segment increased \$3.3 million in 2017 over the prior year due primarily to increased efficiencies in our Puerto Rico facility partially offset by the additional expenses incurred due to the disruption from Hurricanes Maria and Irma.
- Selling, general and administrative expenses decreased \$6.7 million in 2017 from prior year primarily as result of lower compensation expenses due to the reorganizational changes made in the third quarter of 2016 as well as decreased depreciation expenses.
- Net interest expense decreased \$0.2 million in 2017 from the prior year due to lower overall levels of debt partially offset by an increase in the effective interest rate.
- Net income increased \$11.7 million in 2017 from prior year results primarily due to increased margins along with a decrease in operating expenses year over year. There were also significant one-time charges in both 2017 and 2016. In 2017, we recognized an income tax benefit in the fourth quarter of \$3.2 million associated with Tax Cuts and Jobs Act (TCJA). The income tax benefit was partially offset by the \$1.6 million loss, after-tax, on the sale of the Creative Recreation brand. In 2016, after-tax, we recognized a \$2.0 million impairment of our Creative Recreation trade name and a reorganizational charge of \$0.8 million.
- Total debt at December 31, 2017 was \$2.2 million or \$12.4 million lower than the prior year.

Our cash from operating activities decreased \$4.2 million in 2017 over the prior year, primarily the result of an increase in accounts receivable partially offset by lower inventories and increased accounts payable.

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

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

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

Table of Contents

Percentage of Net Sales

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

	Years Ended		
	December 31,		
	2017	2016	2015
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	68.1	70.5	67.0
Gross margin	31.9	29.5	33.0
SG&A expense	27.2	29.1	29.1
Reorganizational charge	-	0.4	-
Impairment charge	-	1.2	-
Income from operations	4.7 %	(1.2) %	3.9 %

Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net sales. Net sales decreased 2.7% to \$253.2 million for 2017 compared to \$260.3 million the prior year. Wholesale sales decreased \$10.3 million to \$166.7 million for 2017 compared to \$176.9 million for 2016. The decrease in wholesale sales was primarily the result of decreased sales in our work and commercial military categories. The decrease in 2017 are primarily the result of the discontinuation of a private label work program in the third quarter of 2016 and a decrease in commercial military sales in the second and third quarter of 2017 as we were unable to anniversary the large initial sell-ins of new boots that took place in 2016 when the color pattern changed from tan to coyote. Retail sales increased to \$48.4 million for 2017 compared to \$45.9 million for 2016. The \$2.4 million increase in retail sales resulted from a significant increase in our Lehigh business which includes our business to business web platforms. Military segment sales were \$38.2 million for 2017 compared to \$37.4 million in 2016. We bid on military contracts when they become available. Our U.S Military sales are dependent on us winning bids for contracts and the purchase orders received on these contracts. We are currently fulfilling several multiyear contracts for the U.S. military. Average list prices in 2017 for our footwear, apparel and accessories were comparable to 2016.

Gross margin. Gross margin increased to \$80.8 million or 31.9% of net sales for 2017 compared to \$76.7 million or 29.5% of net sales for the prior year. Wholesale gross margin for 2017 was \$54.2 million, or 32.5% of net sales, compared to \$53.5 million, or 30.2% of net sales in 2016. The 230 basis point increase was largely due to higher margins due to a combination of better full price selling, less discounting and the discontinuation of a lower margin private label program. Retail gross margin for 2017 was \$21.2 million or 43.8%, compared to \$21.1 million or 45.9% in 2016. The 210 basis point decrease was largely due to the increase in our Lehigh sales which carries a lower margin than our e-commerce business. Military gross margin in 2017 was \$5.4 million, or 14.2% of net sales, compared to \$2.2 million, or 5.8% of net sales in 2016. The increase in military margin is primarily due to increased efficiencies in our Puerto Rico facility partially offset by the additional expenses incurred due to the disruption from Hurricanes Maria and Irma.

SG&A expenses. SG&A expenses were \$68.9 million, or 27.2% of net sales in 2017 compared to \$75.6 million, or 29.1% of net sales for 2016. The net decrease primarily reflected lower compensation expenses due to the reorganizational changes made in the third quarter of 2016 as well as decreased depreciation expenses.

Reorganizational Charge. During the quarter ended September 30, 2016, we recorded \$0.8 million after-tax in a reorganizational charge consisting of severance. The purpose of this reorganization was to maximize profitability, drive long-term revenue growth and maximize shareholder value.

Impairment Charge. During the quarter ended December 31, 2016, we recorded a \$2.0 million after-tax non-cash impairment charge as a result of our 2016 indefinite-lived intangible test for the Creative Recreation trademark.

Interest expense. Interest expense was \$0.4 million in 2017, compared to \$0.6 million for the prior year. The decrease in interest expense in 2017 from the prior year was due to lower overall levels of debt partially offset by an increase in the effective interest rate.

Table of Contents

Income taxes. Income tax benefit was \$0.2 million in 2017, compared to an income tax benefit of \$1.5 million for the same period a year ago. Our income tax benefit for 2017 was a result of the Tax Cuts and Jobs Act (TCJA), more specifically the reduction in the statutory rate applied to our deferred tax liabilities. This benefit was reduced by transition taxes on previously unremitted earnings of non—U.S. subsidiaries and taxes due on \$9.4 million of pretax income.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Net sales. Net sales decreased 3.36% to \$260.3 million for 2016 compared to \$269.3 million the prior year. Wholesale sales decreased \$29.1 million to \$176.9 million for 2016 compared to \$206.1 million for 2015. The decrease in wholesale sales was primarily the result of decreases in most of our footwear and apparel categories, except for commercial military. The decreases in 2016 are primarily the result of warmer temperatures in the critical fall shipping season and weak retail store traffic that pressured demand in all of our categories. Retail sales increased to \$45.9 million for 2016 compared to \$45.8 million for 2015. The \$0.1 million increase in retail sales resulted from increased sales in our business-to-consumer ecommerce web platforms. Military segment sales were \$37.4 million for 2016 compared to \$17.4 million in 2015. We bid on military contracts when they become available. Our U.S. Military sales are dependent on us winning bids for contracts and the purchase orders received on these contracts. We are currently fulfilling several multiyear contracts for the U.S. military. Average list prices in 2016 for our footwear, apparel and accessories were comparable to 2015.

Gross margin. Gross margin decreased to \$76.7 million or 29.5% of net sales for 2016 compared to \$88.9 million or 33.0% of net sales for the prior year. Wholesale gross margin for 2016 was \$53.5 million, or 30.2% of net sales, compared to \$66.0 million, or 32.0% of net sales in 2015. The 180 basis point decline was largely due to lower overall average selling price due to the product mix of sales. Retail gross margin for 2016 was \$21.1 million or 45.9%, compared to \$20.6 million or 45.0% in 2015. The 90 basis point increase was largely due to an increase in on-line direct to consumer sales, which carry a higher margin. Military gross margin in 2016 was \$2.2 million, or 5.8% of net sales, compared to \$2.3 million, or 13.1% of net sales in 2015. The decrease in military margin is primarily due to additional investments needed to support the increase in military production in our Puerto Rico facility.

SG&A expenses. SG&A expenses were \$75.6 million, or 29.1% of net sales in 2016 compared to \$78.4 million, or 29.1% of net sales for 2015. The net decrease primarily reflected lower advertising expenses of \$1.8 million and lower freight costs of \$0.6 million, partially offset by an increase in bad debt expense of \$1.4 million.

Reorganizational Charge. During the quarter ended September 30, 2016, we recorded \$0.8 million after-tax in a reorganizational charge consisting of severance. The purpose of this reorganization was to maximize profitability, drive long-term revenue growth and maximize shareholder value.

Impairment Charge. During the quarter ended December 31, 2016, we recorded a \$2.0 million after-tax non-cash impairment charge as a result of our 2016 indefinite-lived intangible test for the Creative Recreation trademark.

Interest expense. Interest expense was \$0.6 million in 2016, compared to \$0.7 million for the prior year. The decrease in interest expense in 2016 from the prior year was due to lower overall levels of debt.

Income taxes. Income tax benefit was \$1.5 million in 2016, compared to an income tax expense of \$3.1 million for the same period a year ago. The decrease in income tax expense for 2016 was due to a \$13.3 million decrease in pretax income. The effective tax rate for 2016 was 40.9% compared to 31.8% for 2015. The effective tax rate for 2016 increased over 2015 as a result of a decrease in our permanent capital investment in the Dominican Republic which increased the dividends paid for U.S income tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Table of Contents

Over the last several years our principal uses of cash have been for working capital and capital expenditures to support our growth. Our working capital consists primarily of trade receivables and inventory, offset by accounts payable and accrued expenses. Our working capital fluctuates throughout the year as a result of our seasonal business cycle and business expansion and is generally lowest in the months of January through March of each year and highest during the months of May through October of each year. We typically utilize our revolving credit facility to fund our seasonal working capital requirements. As a result, balances on our revolving credit facility will fluctuate significantly throughout the year. Our working capital decreased to \$99.2 million at December 31, 2017, compared to \$101.1 million at the end of the prior year.

Our capital expenditures relate primarily to projects relating to our corporate offices, property, merchandising fixtures, molds and equipment associated with our manufacturing and distribution operations and for information technology. Capital expenditures were \$4.3 million for 2017 and \$6.0 million in 2016. Capital expenditures for 2018 are anticipated to be approximately \$4.1 million.

We lease certain machinery, shoe centers, and manufacturing facilities under operating leases that generally provide for renewal options. Future minimum lease payments under non-cancelable operating leases are outlined in further detail in Note 8.

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

As a result of the Tax Cuts and Jobs Act (TCJA) passed in December 2017, the Company has recorded a liability of \$2.5 million related to the taxation of unremitted earnings of non-U.S. subsidiaries, which will be paid over eight years. The Company does not expect this to have a material impact on its current or future liquidity.

Cash Flows

(\$ in millions)	2017	2016	2015
Operating activities	\$ 17.1	\$ 21.3	\$ 23.2
Investing activities	(1.6)	(5.8)	(8.6)

Financing activities	(16.3)	(14.4)	(15.8)
Net change in cash and cash equivalents	\$ (0.8)	\$ 1.1	\$ (1.2)

Operating Activities. The principal sources of net cash in 2017 included lower inventories and increases to accounts payable and long-term taxes payable. These sources of net cash were partially offset by an increase in accounts receivable. The principal sources of net cash in 2016 included lower balances of accounts receivable and inventory, in addition to an increase in accounts payable. Principal sources of net cash in 2015 included lower balances of accounts receivable and inventory, which were partially offset by lower balances of accounts payable and other accrued liabilities.

Investing Activities. The principal use of cash in 2017, 2016 and 2015 was for the purchase of molds and equipment associated with our manufacturing and distribution operations and for information technology software and system upgrades. An offsetting impact to the use of cash in 2017 was cash collected for the sale of the Creative Recreation brand in the fourth quarter of 2017.

Financing Activities. Proceeds and repayments of the revolving credit facility reflect daily cash disbursement and deposit activity. Our financing activities during 2017, 2016, and 2015 principally were net repayments under the revolving line of credit facility and payments of dividends.

The Board of Directors approved a common stock repurchase program in March 2017 that expired on March 1, 2018. On March 1, 2018, the Company announced a new \$7,500,000 share repurchase program that will replace the 2017 plan and will expire on March 1, 2019. Management could decide to repurchase additional shares under either program up through the date of expiration of the program. For additional information regarding this share repurchase program see Note 11.

Table of Contents

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations at December 31, 2017 resulting from financial contracts and commitments. We have not included information on our recurring purchases of materials for use in our manufacturing operations. These amounts are generally consistent from year to year, closely reflect our levels of production, and are not long-term in nature (less than three months).

Contractual Obligations at December 31, 2017:

(\$ in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Long-term debt	\$ 2.2	\$ -	\$ 2.2	-	\$ -
Taxes payable (1)	2.5	0.2	0.6	\$ 0.6	1.1
Minimum operating lease commitments	1.4	0.8	0.6	-	-
Expected cash requirements for interest (2)	0.8	0.4	0.4	-	-
Total contractual obligations	\$ 6.9	\$ 1.4	\$ 3.8	\$ 0.6	\$ 1.1

(1) Represents one-time transition tax payable related to known amounts of cash taxes payable in future years as a result of the TCJA. For further information, refer to Note 10.

(2) No payments are reflected in the above table after the credit facility matures in November 2019.

From time to time, we enter into purchase commitments with our suppliers under customary purchase order terms. Any significant losses implicit in these contracts would be recognized in accordance with generally accepted accounting principles. At December 31, 2017, no such losses existed.

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

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

Inflation

Our financial performance is influenced by factors such as higher raw material costs as well as higher salaries and employee benefits. Management attempts to minimize or offset the effects of inflation through increased selling prices, productivity improvements, and cost reductions. We were able to mitigate the effects of inflation during 2017, 2016, and 2015 due to these factors. It is anticipated that any inflationary pressures during 2018 could be offset through possible price increases.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue recognition

Revenue principally consists of sales to customers, and, to a lesser extent, license fees. Revenue is recognized when goods are shipped and title passes to the customer, while license fees are recognized when earned. Customer sales are recorded net of allowances for estimated returns, trade promotions and other discounts, which are recognized as a deduction from sales at the time of sale.

Table of Contents

Accounts receivable allowances

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

Sales returns and allowances

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

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

	2017	2016	2015
Sales, returns, and allowances	3.9 %	3.8 %	3.5 %

Inventories

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

Intangible assets

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

In assessing whether indefinite-lived intangible assets are impaired, we must make certain estimates and assumptions regarding future cash flows, long-term growth rates of our business, operating margins, weighted average cost of capital and other factors such as; discount rates, royalty rates, cost of capital, and market multiples to determine the fair value of our assets. These estimates and assumptions require management's judgment, and changes to these estimates and assumptions could materially affect the determination of fair value and/or impairment for each of our other indefinite-lived intangible assets. Future events could cause us to conclude that indications of intangible asset impairment exist. Impairment may result from, among other things, deterioration in the performance of our business, adverse market conditions, adverse changes in applicable laws and regulations, competition, or the sale or disposition of a reporting segment. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. See Note 5 for additional information regarding intangible assets.

Income taxes

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

On December 22, 2017, the U.S. enacted the TCJA, which significantly changes U.S. corporate income tax laws by, among other things, reducing the U.S. corporate income tax rate to 21% beginning in 2018 and creating a territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of U.S. subsidiaries.

Table of Contents

Other significant changes to U.S. income taxes resulting from TCJA will be reflected in 2018. In addition to the reduction of the corporate tax rate, changes in the taxation of foreign earnings and the deductibility of expenses are still being evaluated by the Company and could have a material impact on the company's effective tax rate.

Concurrent with the enactment of the tax reform legislation on December 22, 2017, the SEC staff issued guidance in Staff Accounting Bulletin 118 ("SAB 118") to address concerns regarding the ability of a reporting entity to timely comply with the accounting requirements to recognize all the effects of the Act in the period of enactment. Under SAB 118, the Company has up to 12 months from the enactment date to complete the accounting for some or all of the income tax effects triggered by the enactment of the law. The Company has recorded a provisional estimate of the expected tax liability as required under SAB 118 and intends to finalize the computations on or before the due date of the U.S. corporate tax return in October 2018.

RECENT FINANCIAL ACCOUNTING PRONOUNCEMENTS

Note 2 to Consolidated Financial Statements discusses new accounting pronouncements adopted during 2017 and the expected impact of accounting pronouncements recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affect financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section of this MD&A and the Notes to Consolidated Financial Statements.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES REFORM ACT OF 1995

This Management's Discussion and Analysis of Financial Conditions and Results of Operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief, expectations, such as statements concerning our future profitability and our operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "po," "continue," "likely" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements involve risk and uncertainties including, without limitations, dependence on sales forecasts, changes in consumer demand, seasonality, impact of weather, competition, reliance on suppliers, changing retail trends, economic changes, as well as other factors set forth under the caption "Item 1A, Risk Factors" in this Annual Report on Form 10-K and other factors detailed from time to time in our filings with the Securities and Exchange Commission. Although we believe that the assumptions underlying the forward-looking statements

contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We assume no obligation to update any forward-looking statements.

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

Our primary market risk results from fluctuations in interest rates. We are also exposed to changes in the price of commodities used in our manufacturing operations. However, commodity price risk related to the Company's current commodities is not material as price changes in commodities can generally be passed along to the customer. We do not hold any market risk sensitive instruments for trading purposes.

The following item is market rate sensitive for interest rates for the Company: long-term debt consisting of a credit facility (as described below) with a balance at December 31, 2017 of \$2.2 million. For additional information about our credit facility see Note 7. We have no other long-term debt maturities.

We do not have any interest rate management agreements as of December 31, 2017.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Rocky Brands, Inc. and Subsidiaries

Index to consolidated financial statements

Description	Page
<u>Report of Independent Registered Public Accounting Firm</u>	27
<u>Consolidated Balance Sheets as of December 31, 2017 and 2016</u>	28
<u>Consolidated Statements of Operations for the Years Ended December 31, 2017, 2016, and 2015</u>	29
<u>Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2017, 2016, and 2015</u>	30
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016, and 2015</u>	31
<u>Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>	32
<u>Note 2. ACCOUNTING STANDARDS UPDATES</u>	35
<u>Note 3. INVENTORIES</u>	36
<u>Note 4. PROPERTY, PLANT, AND EQUIPMENT</u>	37
<u>Note 5. IDENTIFIED INTANGIBLE ASSETS</u>	37
<u>Note 6. OTHER ASSETS</u>	39
<u>Note 7. LONG-TERM DEBT</u>	39
<u>Note 8. OPERATING LEASES</u>	39
<u>Note 9. BENEFIT PLAN</u>	40
<u>Note 10. TAXES</u>	40
<u>Note 11. SHAREHOLDERS' EQUITY</u>	43
<u>Note 12. SHARE-BASED COMPENSATION</u>	43
<u>Note 13. EARNINGS PER SHARE</u>	44
<u>Note 14. SUPPLEMENTAL CASH FLOW INFORMATION</u>	45
<u>Note 15. SEGMENT INFORMATION</u>	45
<u>Note 16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)</u>	47
<u>Note 17. COMMITMENTS AND CONTINGENCIES</u>	47
<u>Note 18. REORGANIZATIONAL CHARGE</u>	47
<u>Note 19. SALE OF CREATIVE RECREATION</u>	47

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Rocky Brands, Inc. and Subsidiaries

Nelsonville, Ohio

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Rocky Brands, Inc. and Subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, 2016 and 2015 and the related notes and the financial statement schedule listed in the index at Item 15(a)(2), (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based upon criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2018, expressed an unqualified opinion.

Basis for Opinion

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

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

/s/ Schneider Downs & Co., Inc.

We have served as the Company's auditor since 2007.

Columbus, Ohio

March 12, 2018

Table of Contents

Rocky Brands, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31,	
	2017	2016
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,680,776	\$ 4,480,505
Trade receivables, net	45,027,002	40,844,583
Other receivables	806,468	688,251
Inventories	65,622,432	69,168,442
Income tax receivable	1,849,237	1,243,678
Prepaid expenses	2,199,648	2,354,107
Total current assets	119,185,563	118,779,566
PROPERTY, PLANT & EQUIPMENT – net	23,781,001	26,511,493
IDENTIFIED INTANGIBLES	30,314,749	33,415,694
OTHER ASSETS	197,977	232,509
TOTAL ASSETS	\$ 173,479,290	\$ 178,939,262
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	\$ 12,982,535	\$ 11,589,040
Accrued expenses:		
Salaries and wages	1,754,681	949,894
Taxes - other	599,793	842,325
Accrued freight	770,219	534,070
Commissions	455,845	446,703
Accrued duty	2,160,847	1,980,598
Other	1,301,931	1,377,281
Total current liabilities	20,025,851	17,719,911
LONG TERM DEBT	2,199,423	14,584,008
LONG TERM TAXES PAYABLE	2,286,512	-
DEFERRED INCOME TAXES	7,726,234	11,365,800
DEFERRED LIABILITIES	148,408	176,219
TOTAL LIABILITIES	32,386,428	43,845,938
SHAREHOLDERS' EQUITY:		
Common stock, no par value;		
25,000,000 shares authorized; issued and outstanding December 31, 2017 -		
7,398,654 and December 31, 2016 - 7,421,455	68,973,927	69,291,637
Retained earnings	72,118,935	65,801,687

Total shareholders' equity	141,092,862	135,093,324
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 173,479,290	\$ 178,939,262

See notes to consolidated financial statements

Table of Contents

Rocky Brands, Inc. and Subsidiaries

Consolidated Statements of Operations

	Years Ended December 31,		
	2017	2016	2015
NET SALES	\$ 253,196,972	\$ 260,258,584	\$ 269,302,023
COST OF GOODS SOLD	172,428,155	183,528,494	180,410,184
GROSS MARGIN	80,768,817	76,730,090	88,891,839
OPERATING EXPENSES			
Selling, general and administrative expenses	68,943,561	75,631,490	78,402,079
Reorganizational charge	-	1,159,527	-
Impairment charge	-	3,000,000	-
Total Operating Expenses	68,943,561	79,791,017	78,402,079
INCOME (LOSS) FROM OPERATIONS	11,825,256	(3,060,927)	10,489,760
OTHER INCOME AND (EXPENSES):			
Interest expense	(389,586)	(616,567)	(696,827)
Other – net	15,450	59,020	(105,433)
Loss on disposition of Creative Recreation	(2,089,816)	-	-
Total other - net	(2,463,952)	(557,547)	(802,260)
INCOME (LOSS) BEFORE INCOME TAXES	9,361,304	(3,618,474)	9,687,500
INCOME TAX (BENEFIT) EXPENSE	(225,362)	(1,479,078)	3,084,343
NET INCOME (LOSS)	\$ 9,586,666	\$ (2,139,396)	\$ 6,603,157
INCOME (LOSS) PER SHARE			
Basic	\$ 1.29	\$ (0.29)	\$ 0.87
Diluted	\$ 1.29	\$ (0.29)	\$ 0.87
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	7,428,176	7,505,219	7,563,205
Diluted	7,450,312	7,505,219	7,574,172

See notes to consolidated financial statements

Table of Contents

Rocky Brands, Inc. and Subsidiaries

Consolidated Statement of Shareholders' Equity

	Common Stock and Additional Paid-in Capital Shares Outstanding	Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
BALANCE - December 31, 2014	7,550,126	\$ 70,460,672	\$ -	\$ 67,887,246	\$ 138,347,918
YEAR ENDED DECEMBER 31, 2015					
Net income				6,603,157	6,603,157
Dividends paid on common stock				(3,252,254)	(3,252,254)
Stock issued and options exercised including tax benefits	600	8,742			8,742
Stock compensation expense	16,545	412,978			412,978
BALANCE - December 31, 2015	7,567,271	\$ 70,882,392	\$ -	\$ 71,238,149	\$ 142,120,541
YEAR ENDED DECEMBER 31, 2016					
Net loss				\$ (2,139,396)	\$ (2,139,396)
Dividends paid on common stock				(3,297,066)	(3,297,066)
Repurchase of common stock	(175,632)	\$ (1,950,114)			(1,950,114)
Stock compensation expense	29,816	359,359			359,359
BALANCE - December 31, 2016	7,421,455	\$ 69,291,637	\$ -	\$ 65,801,687	\$ 135,093,324
YEAR ENDED DECEMBER 31, 2017					
Net income				9,586,666	9,586,666
Dividends paid on common stock				(3,269,418)	(3,269,418)
Repurchase of common stock	(51,533)	(688,337)			(688,337)
Stock issued and options exercised including tax benefits	1,050	14,236			14,236
Stock compensation expense	27,682	356,391			356,391
BALANCE - December 31, 2017	7,398,654	\$ 68,973,927	\$ -	\$ 72,118,935	\$ 141,092,862

See notes to consolidated financial statements

Table of Contents

Rocky Brands, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	December 31, 2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 9,586,666	\$ (2,139,396)	\$ 6,603,157
Adjustments to reconcile net income (Loss) to net cash provided by operating activities:			
Depreciation and amortization	6,507,294	7,720,836	7,188,123
Deferred income taxes	(3,639,566)	(602,991)	332,650
Loss on disposal of fixed assets	120,284	47,712	19,500
Loss on disposition of Creative Recreation	2,089,816	-	-
Reorganizational charge	-	486,496	-
Impairment charge	-	3,000,000	-
Stock compensation expense	356,391	359,359	412,978
Change in assets and liabilities:			
Receivables	(6,074,903)	3,273,852	11,150,897
Inventories	4,046,981	7,822,617	8,245,983
Income tax receivable	(605,559)	(1,114,979)	(128,699)
Other current assets	154,459	176,410	22,925
Other assets	34,532	26,303	40,678
Accounts payable	1,359,795	2,346,865	(6,004,991)
Accrued and other liabilities	884,634	(104,743)	(4,640,636)
Long-term taxes payable	2,286,512	-	-
Net cash provided by operating activities	17,107,336	21,298,341	23,242,565
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(4,308,346)	(5,906,479)	(8,654,642)
Proceeds from sales of fixed assets	330,118	44,764	17,495
Proceeds from the sale of Creative Recreation	2,399,267	-	-
Investment in trademarks and patents	-	-	(1,176)
Net cash used in investing activities	(1,578,961)	(5,861,715)	(8,638,323)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facility	61,779,493	71,255,424	68,423,672
Repayments on revolving credit facility	(74,164,078)	(80,371,505)	(80,993,956)
Proceeds from stock options	14,236	-	8,742
Repurchase of common stock	(688,337)	(1,950,114)	-
Dividends paid on common stock	(3,269,418)	(3,297,066)	(3,252,254)
Net cash used in financing activities	(16,328,104)	(14,363,261)	(15,813,796)

(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(799,729)	1,073,365	(1,209,554)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF PERIOD	4,480,505	3,407,140	4,616,694
END OF PERIOD	\$ 3,680,776	\$ 4,480,505	\$ 3,407,140

See notes to consolidated financial statements

Table of Contents

ROCKY BRANDS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED December 31, 2017, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Trade Receivables - Trade receivables are presented net of the related allowance for uncollectible accounts of approximately \$177,000 and \$1,041,000 at December 31, 2017 and 2016, respectively. The Company records the allowance based on historical experience, the age of the receivables, and identification of customer accounts that are likely to prove difficult to collect due to various criteria including pending bankruptcy. However, estimates of the allowance in any future period are inherently uncertain and actual allowances may differ from these estimates. If actual or expected future allowances were significantly greater or less than established reserves, a reduction or increase to bad debt expense would be recorded in the period this determination was made. Our credit policy generally provides that trade receivables will be deemed uncollectible and written-off once we have pursued all reasonable efforts to collect on the account.

Concentration of Credit Risk - We have significant transactions with a large number of customers. No customer represented 10% of trade receivables - net as of December 31, 2017 and 2016. Our exposure to credit risk is impacted by the economic climate affecting the retail shoe industry. We manage this risk by performing ongoing credit evaluations of our customers and maintain reserves for potential uncollectible accounts.

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

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

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

Table of Contents

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