ROCKY BRANDS, INC.
Form 10-Q
November 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______________ to ______________

Commission file number: **001-34382**

ROCKY BRANDS, INC.

(Exact name of registrant as specified in its charter)

Ohio	**31-1364046**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

39 E. Canal Street, Nelsonville, Ohio 45764

(Address of Principal Executive Offices, Including Zip Code)

(740) 753-1951

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

(Do not check if a smaller reporting company)

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

As of November 1, 2013, 7,516,448 shares of Rocky Brands, Inc. common stock, no par value, were outstanding.

FORM 10-Q

ROCKY BRANDS, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

ROCKY BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012	September 30, 2012 (Unaudited)
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	$ 4,580,425	$ 4,022,579	$ 3,509,973
Trade receivables – net	60,620,981	44,555,057	60,648,404
Other receivables	358,717	575,984	811,730
Inventories	78,900,140	67,196,245	73,028,601
Deferred income taxes	1,223,479	1,252,030	1,091,657
Prepaid expenses	2,259,419	2,127,726	2,122,697
Total current assets	147,943,161	119,729,621	141,213,062
FIXED ASSETS – net	24,978,962	24,252,465	24,396,719
IDENTIFIED INTANGIBLES	30,511,954	30,498,802	30,485,935
OTHER ASSETS	291,862	363,527	392,565
TOTAL ASSETS	$ 203,725,939	$ 174,844,415	$ 196,488,281
LIABILITIES AND SHAREHOLDERS' EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	$ 13,099,826	$ 9,930,518	$ 13,366,846
Accrued expenses:			
Salaries and wages	1,343,374	592,568	2,028,785
Taxes - other	654,143	704,064	498,437
Accrued freight	896,795	857,991	699,352
Commissions	535,842	711,459	649,537
Income taxes payable	1,027,176	335,210	1,676,590
Other	2,550,044	1,162,650	1,445,016
Total current liabilities	20,107,200	14,294,460	20,364,563
LONG TERM DEBT	42,366,415	23,461,340	41,862,634
DEFERRED INCOME TAXES	11,096,260	11,148,333	10,765,962
DEFERRED LIABILITIES	255,906	303,406	406,323
TOTAL LIABILITIES	73,825,781	49,207,539	73,399,482
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, no par value;			
	69,862,770	69,694,770	69,694,770

25,000,000 shares authorized; issued and outstanding September 30, 2013 - 7,516,448; December 31, 2012 - 7,503,568 and September 30, 2012 - 7,503,568			
Retained earnings	60,037,388	55,942,106	53,394,029
Total shareholders' equity	129,900,158	125,636,876	123,088,799
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 203,725,939	$ 174,844,415	$ 196,488,281

See notes to the interim unaudited condensed consolidated financial statements.

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ROCKY BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
NET SALES	$70,176,216	$72,539,400	$183,311,443	$170,273,676
COST OF GOODS SOLD	47,436,546	46,356,820	121,590,516	110,717,388
GROSS MARGIN	22,739,670	26,182,580	61,720,927	59,556,288
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	18,341,247	18,244,196	52,947,165	49,879,981
INCOME FROM OPERATIONS	4,398,423	7,938,384	8,773,762	9,676,307
OTHER INCOME AND (EXPENSES):				
Interest expense, net	(200,129)	(192,249)	(476,881)	(467,202)
Other – net	73,484	138,757	73,273	143,038
Total other - net	(126,645)	(53,492)	(403,608)	(324,164)
INCOME BEFORE INCOME TAXES	4,271,778	7,884,892	8,370,154	9,352,143
INCOME TAX EXPENSE	1,337,582	2,517,455	2,771,582	3,045,455
COMPREHENSIVE INCOME	$2,934,196	$5,367,437	$5,598,572	$6,306,688
NET INCOME PER SHARE				
Basic	$0.39	$0.72	$0.74	$0.84
Diluted	$0.39	$0.72	$0.74	$0.84
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	7,516,448	7,503,568	7,516,354	7,503,469
Diluted	7,516,448	7,503,568	7,516,354	7,503,469

See notes to the interim unaudited condensed consolidated financial statements.

ROCKY BRANDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,598,572	$6,306,688
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,678,251	4,337,217
Deferred income taxes	(23,522)	(159,050)
Loss (gain) on disposal of fixed assets	29,162	(61,515)
Stock compensation expense	168,000	122,500
Change in assets and liabilities		
Receivables	(15,848,657)	(15,504,655)
Inventories	(11,703,895)	(8,009,553)
Other current assets	(131,693)	1,603,908
Other assets	71,665	117,728
Accounts payable	3,373,121	7,588,751
Accrued and other liabilities	2,595,932	1,681,444
Net cash used in operating activities	(11,193,064)	(1,976,537)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(5,645,646)	(5,111,209)
Investment in trademarks and patents	(52,854)	(30,104)
Proceeds from sale of fixed assets	47,625	114,898
Net cash used in investing activities	(5,650,875)	(5,026,415)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	59,240,075	50,047,109
Repayments of revolving credit facility	(40,335,000)	(43,184,475)
Dividends paid on common stock	(1,503,290)	-
Net cash provided by financing activities	17,401,785	6,862,634
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	557,846	(140,318)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,022,579	3,650,291
CASH AND CASH EQUIVALENTS, END OF PERIOD	$4,580,425	$3,509,973

See notes to the interim unaudited condensed consolidated financial statements.

ROCKY BRANDS, INC.

AND SUBSIDIARIES

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

1. INTERIM FINANCIAL REPORTING

In the opinion of management, the accompanying interim unaudited condensed consolidated financial statements reflect all adjustments that are necessary for a fair presentation of the financial results. All such adjustments reflected in the unaudited interim condensed consolidated financial statements are considered to be of a normal and recurring nature. The results of the operations for the three and nine months ended September 30, 2013 and 2012 are not necessarily indicative of the results to be expected for the whole year. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

2. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately $589,000, $650,000 and $568,000 at September 30, 2013, December 31, 2012 and September 30, 2012, respectively. The allowance for uncollectible accounts is calculated based on the relative age and size of trade receivable balances. 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.

3. INVENTORIES

Inventories are comprised of the following:

	September 30, 2013 (Unaudited)	December 31, 2012	September 30, 2012 (Unaudited)
Raw materials	$ 12,196,363	$ 10,611,641	$ 11,569,388
Work-in-process	752,869	407,262	923,646
Finished goods	66,070,208	56,359,742	60,642,767

Reserve for obsolescence or lower of cost or market	(119,300)	(182,400)	(107,200)
Total	$ 78,900,140	$ 67,196,245	$ 73,028,601

4. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

	(Unaudited) Nine Months Ended September 30, 2013	2012
Interest	$479,280	$518,111
Federal, state and local income taxes, net of refunds	$2,081,478	$340,764
Fixed asset purchases in accounts payable	$414,961	$235,902

5. PER SHARE INFORMATION

Basic earnings per share ("EPS") is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding during each period. The diluted earnings per share computation includes common share equivalents, when dilutive. There are no adjustments to net income necessary in the calculation of basic and diluted earnings per share.

A reconciliation of the shares used in the basic and diluted income per common share computation for the three and nine months ended September 30, 2013 and 2012 is as follows:

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average shares outstanding	7,516,448	7,503,568	7,516,354	7,503,469
Dilutive stock options	-	-	-	-
Dilutive weighted average shares outstanding	7,516,448	7,503,568	7,516,354	7,503,469
Anti-dilutive stock options/weighted average shares outstanding	8,413	10,000	8,908	11,204

6. RECENT FINANCIAL ACCOUNTING STANDARDS

Recently adopted accounting standards

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* The update does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material effect on our consolidated financial statements.

Accounting standards not yet adopted

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The update provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this update do not require new recurring disclosures. The amendments are effective prospectively for reporting periods beginning after December 15, 2013. We are currently assessing the potential impact of the adoption of this update on our consolidated financial statements.

7. INCOME TAXES

We file income tax returns in the U.S. Federal jurisdiction and various state and foreign jurisdictions. We are no longer subject to U.S. Federal tax examinations for years before 2010. State jurisdictions that remain subject to examination range from 2009 to 2012. Foreign jurisdiction tax returns that remain subject to examination range from 2006 to 2011 for Canada and from 2007 to 2012 for Puerto Rico.

Our policy is to accrue interest and penalties on any uncertain tax positions as a component of income tax expense. As of September 30, 2013, no such expenses were recognized during the quarter.

We provided for income taxes at an estimated effective tax rate of 35.0% and 34.5% for the nine months ended September 30, 2013 and 2012, respectively.

During the three and nine month periods ended September 30, 2013, we recognized a decrease to income tax expense of $0.2 million related to the filing of our 2012 Federal income tax return and our annual tax return to tax provision calculation adjustment which decreased our effective tax rates for the three and nine-month period ended September 30, 2013 to 31.3% and 33.1%, respectively.

During the three and nine month periods ended September 30, 2012, we recognized a decrease to income tax expense of $0.2 million related to the filing of our 2011 Federal income tax return and our annual tax return to tax provision calculation adjustment which decreased our effective tax rates for the three and nine-month period ended September 30, 2012 to 31.9% and 32.6%, respectively.

8. INTANGIBLE ASSETS

A schedule of intangible assets is as follows:

September 30, 2013 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$27,243,578	$ -	$27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,569,257	2,200,881	368,376
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	$33,712,835	$ 3,200,881	$30,511,954

December 31, 2012	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$27,243,578	$ -	$27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,516,402	2,161,178	355,224
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	$33,659,980	$ 3,161,178	$30,498,802

September 30, 2012 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$27,243,578	$ -	$27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,490,895	2,148,538	342,357
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	$33,634,473	$ 3,148,538	$30,485,935

Amortization expense for intangible assets was $13,497 and $12,484 for the three months ended September 30, 2013 and 2012, respectively and $39,702 and $37,277 for the nine months ended September 30, 2013 and 2012, respectively. The weighted average amortization period for patents is 15 years.

Estimate of Aggregate Amortization Expense for the years ending December 31,:

2014	$53,545
2015	52,970
2016	50,196

2017	45,628
2018	39,484

9. CAPITAL STOCK

On May 11, 2004, our shareholders approved the 2004 Stock Incentive Plan. The Plan includes 750,000 of our common shares that may be granted for stock options and restricted stock awards. As of September 30, 2013, we were authorized to issue approximately 321,370 shares under our existing plans.

The Plan generally provides for grants with the exercise price equal to fair value on the date of grant, graduated vesting periods of up to five years, and lives not exceeding ten years. The following summarizes stock option transactions from January 1, 2013 through September 30, 2013:

	Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2013	10,000	$ 24.36
Issued	-	-
Exercised	-	-
Forfeited	(2,000)	$ 24.36
Options outstanding at September 30, 2013	8,000	$ 24.36
Options exercisable at:		
January 1, 2013	10,000	$ 24.36
September 30, 2013	8,000	$ 24.36
Unvested options at September 30, 2013	-	

During the nine month period ended September 30, 2013, we issued 12,880 shares of common stock to members of our Board of Directors. We recorded compensation expense of $168,000, which was the fair market value of the shares on the grant date. The shares are fully vested but cannot be sold for one year.

In June 2009, our Board of Directors adopted a Rights Agreement, which provides for one preferred share purchase right to be associated with each share of our outstanding common stock. Shareholders exercising these rights would become entitled to purchase shares of Series B Junior Participating Cumulative Preferred Stock. The rights are exercisable after the time when a person or group of persons without the approval of the Board of Directors acquire beneficial ownership of 20 percent or more of our common stock or announce the initiation of a tender or exchange offer which if successful would cause such person or group to beneficially own 20 percent or more of our common stock. Such exercise would ultimately entitle the holders of the rights to purchase at the exercise price, shares of common stock of the surviving corporation or purchaser, respectively, with an aggregate market value equal to two times the exercise price. The person or groups effecting such 20 percent acquisition or undertaking such tender offer would not be entitled to exercise any rights. The Rights Agreement was renewed in June 2012 and expires in June 2017.

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In the third quarter of 2013, we declared a dividend on our common stock of $0.10 per share with a record date of August 27, 2013 and payable on September 10, 2013. The third quarter dividend totaled $751,644. For the nine months ended September 30, 2013, we have paid $1,503,290 in dividends that are reflected as a reduction to retained earnings in the Condensed Consolidated Balance Sheet.

10. SEGMENT INFORMATION

We have identified three reportable segments: Wholesale, Retail and Military. Wholesale includes sales of footwear and accessories to several classifications of retailers, including sporting goods stores, outdoor specialty stores, mail order catalogs, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Retail includes all sales from our consumer websites, stores and all sales in our Lehigh division, which includes sales via shoemobiles to individual customers. Military includes sales to the U.S. Military. The following is a summary of segment results for the Wholesale, Retail, and Military segments.

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2013	2012	2013	2012
NET SALES:				
Wholesale	$57,377,365	$62,924,989	$145,215,527	$139,990,981
Retail	9,618,059	9,614,411	30,232,137	29,250,294
Military	3,180,792	-	7,863,779	1,032,401
Total Net Sales	$70,176,216	$72,539,400	$183,311,443	$170,273,676
GROSS MARGIN:				
Wholesale	$17,884,159	$21,753,950	$46,652,480	$45,745,112
Retail	4,406,352	4,428,630	13,967,211	13,767,873
Military	449,159	-	1,101,236	43,303
Total Gross Margin	$22,739,670	$26,182,580	$61,720,927	$59,556,288

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

11. LONG-TERM DEBT

In October 2010, we entered into a financing agreement with PNC Bank (“PNC”) to provide a $70 million credit facility. The term of the facility is five years and the current interest rate is generally LIBOR plus 1.50%.

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 September 30, 2013, no triggering event had occurred and the covenant was not in effect.

The total amount available under our revolving credit facility is subject to a borrowing base calculation based on various percentages of accounts receivable and inventory. As of September 30, 2013, we had total capacity under this facility of $70.0 million of which we had borrowings of $42.4 million.

12. FINANCIAL INSTRUMENTS

Generally accepted accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level l measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting standards are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The only asset or liability measured at fair value on a recurring basis by the Company at September 30, 2013, December 31, 2012 and September 30, 2012 was cash and cash equivalents of $4,580,425, $4,022,579 and $3,509,973, respectively. Cash and cash equivalents are considered to be Level 1.

The fair values of cash, accounts receivable, other receivables and accounts payable approximated their carrying values because of the short-term nature of these instruments. Accounts receivable consists primarily of amounts due from our customers, net of allowances. Other receivables consist primarily of amounts due from employees (sales persons' advances in excess of commissions earned and employee travel advances); other customer receivables, net of allowances; and expected insurance recoveries. The carrying amounts of our revolving line of credit, our mortgages and other short-term financing obligations also approximate fair value, as they are comparable to the available financing in the marketplace during the year.

13. SUBSEQUENT EVENTS

Subsequent to the end of the quarter, we announced that we signed a definitive asset purchase agreement with Kommonwealth, Inc. to acquire certain assets including the Creative Recreation trademark, a lifestyle footwear brand best known for its popular crossover between athletic sneakers and dress shoes. The total purchase price will be approximately $11 million, subject to a working capital adjustment. The acquisition will be funded by our existing cash balances and funds available under our existing revolving credit facility. The acquisition is subject to customary closing conditions and is expected to close in the fourth quarter of 2013.

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

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information derived from our Interim Unaudited Condensed Consolidated Financial Statements, expressed as a percentage of net sales. The discussion that follows the table should be read in conjunction with our Interim Unaudited Condensed Consolidated Financial Statements.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
Net Sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost Of Goods Sold	67.6	%	63.9	%	66.3	%	65.0	%
Gross Margin	32.4	%	36.1	%	33.7	%	35.0	%
Selling, General and Administrative Expenses	26.1	%	25.2	%	28.9	%	29.3	%
Income From Operations	6.3	%	10.9	%	4.8	%	5.7	%

Creative Recreation

Subsequent to the end of the quarter, we announced that we signed a definitive asset purchase agreement with Kommonwealth, Inc. to acquire certain assets including the Creative Recreation trademark, a lifestyle footwear brand best known for its popular crossover between athletic sneakers and dress shoes. The total purchase price will be approximately $11 million, subject to a working capital adjustment. The acquisition will be funded by our existing cash balances and funds available under our existing revolving credit facility. The acquisition is subject to customary closing conditions and is expected to close in the fourth quarter of 2013.

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Net sales. Net sales for the three months ended September 30, 2013 were $70.2 million compared to $72.5 million for the same period in 2012. Wholesale sales for the three months ended September 30, 2013 were $57.4 million compared to $62.9 million for the same period in 2012. The $5.5 million decrease in wholesale sales was primarily the result of a $3.4 million decrease in our hunting footwear category, a $2.2 million decrease in our apparel category, a

$1.5 million decrease in our commercial footwear category and a $1.2 million decrease in our lifestyle footwear category, which was partially offset by increases in our western footwear category of $1.2 million and our work footwear category of $1.0 million. During first quarter of 2013, we began shipping to Tractor Supply under an agreement to produce boots under their trade name C.E. Schmidt. During the third quarter of 2013, we had sales of $2.0 million under this agreement that is included in the work footwear category. Retail sales for the three months ended September 30, 2013 were $9.6 million compared to $9.6 million for the same period in 2012. Military segment sales for the three months ended September 30, 2013, were $3.2 million, compared to zero in the same period in 2012. We have received an order to fulfill a contract to the U.S. Military to produce “Hot Weather” combat boots. Shipment of the boots under this contract began in March 2013.

Gross margin. Gross margin for the three months ended September 30, 2013 was $22.7 million, or 32.4% of net sales, compared to $26.2 million, or 36.1% of net sales, in the same period last year. Wholesale gross margin for the three months ended September 30, 2013 was $17.9 million, or 31.2% of net sales, compared to $21.8 million, or 34.6% of net sales, in the same period last year. The 340 basis point decrease was primarily the result of sales of the lower margin C.E. Schmidt work footwear in 2013 which carries a lower overall margin and increased product costs from our manufacturing facilities. The Retail gross margin for the three months ended September 30, 2013 was $4.4 million, or 45.8% of net sales, compared to $4.4 million, or 46.1% of net sales, for the same period in 2012. Military gross margin for the three months ended September 30, 2013 was $0.4 million, or 14.1% of net sales, compared to zero for the same period in 2012.

SG&A expenses. SG&A expenses were $18.3 million, or 26.1% of net sales, for the three months ended September 30, 2013, compared to $18.2 million, or 25.2% of net sales for the same period in 2012. The increase in SG&A as a percentage of net sales was driven by lower sales and approximately $0.1 million of expenses related to the aforementioned acquisition.

Interest expense. Interest expense was $0.2 million in the three months ended September 30, 2013, compared to $0.2 million for the same period in the prior year.

Income taxes. Income tax expense for the three months ended September 30, 2013 was $1.3 million, compared to $2.5 million for the same period a year ago. We provided for income taxes at an estimated annual effective tax rate of 35% in 2013 and 34.5% in 2012.

During the three month period ended September 30, 2013, we recognized a decrease to income tax expense of $0.2 million related to our provision reconciliation to the filing of our 2012 Federal income tax return which decreased our effective tax rate from 35% to 33.1%. During the three month period ended September 30, 2012, we recognized a decrease to income tax expense of $0.2 million related to our provision reconciliation to the filing of our 2011 Federal income tax return which decreased our effective tax rate from 34.2% to 31.9%.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net sales. Net sales for the nine months ended September 30, 2013 were $183.3 million compared to $170.3 million for the same period in 2012. Wholesale sales for the nine months ended September 30, 2013 were $145.2 million compared to $140.0 million for the same period in 2012. The $5.2 million increase in wholesale sales was primarily the result of an increase in our western footwear category of $5.7 million and our work footwear category of $5.0 million, which were partially offset by a decrease in our hunting footwear category of $3.3 million and our commercial military category of $2.9 million. During first quarter of 2013, we began shipping to Tractor Supply under an agreement to produce boots under their trade name C.E. Schmidt. During the first nine months of 2013, we had sales of $7.8 million under this agreement that is included in the work footwear category. Retail sales for the nine months ended September 30, 2013 were $30.2 million compared to $29.3 million for the same period in 2012. The $0.9 million increase in retail sales was primarily driven by a significant gain in our business-to-consumer e-commerce sales. Military segment sales for the nine months ended September 30, 2013, were $7.9 million, compared to $1.0 million in the same period in 2012. We have received an order to fulfill a contract to the U.S. Military to produce “Hot Weather” combat boots. Shipment of the boots under this contract began in March 2013.

Gross margin. Gross margin for the nine months ended September 30, 2013 was $61.7 million, or 33.7% of net sales, compared to $59.6 million, or 35.0% of net sales, in the same period last year. Wholesale gross margin for the nine months ended September 30, 2013 was $46.7 million, or 32.1% of net sales, compared to $45.7 million, or 32.7% of net sales, in the same period last year. The 60 basis point decrease was primarily the result of sales of the lower margin C.E. Schmidt work footwear in 2013 which carries a lower overall margin. The Retail gross margin for the nine months ended September 30, 2013 was $14.0 million, or 46.2% of net sales, compared to $13.8 million, or 47.1% of net sales, for the same period in 2012. The 90 basis point decrease was largely due to lower average selling prices on our internet driven transactions than our mobile store transactions. Military gross margin for the nine months ended September 30, 2013 was $1.1 million, or 14.0% of net sales, compared to less than $0.1 million, or 4.2% of net sales, for the same period in 2012.

SG&A expenses. SG&A expenses were $52.9 million, or 28.9% of net sales, for the nine months ended September 30, 2013, compared to $49.9 million, or 29.3% of net sales for the same period in 2012. The net change primarily reflected higher freight costs of $1.3 million, increased advertising expenses of $1.2 million and approximately $0.1 million of expenses related to the aforementioned acquisition.

Interest expense. Interest expense was $0.5 million in the nine months ended September 30, 2013, compared to $0.5 million for the same period in the prior year.

Income taxes. Income tax expense for the nine months ended September 30, 2013 was $2.8 million, compared to $3.0 million for the same period a year ago. We provided for income taxes at an estimated annual effective tax rate of 35% in 2013 and 34.5% in 2012.

During the nine month period ended September 30, 2012, we recognized a decrease to income tax expense of $0.2 million related to our provision reconciliation to the filing of our 2012 Federal income tax return which decreased our effective tax rate from 35.0% to 33.1%. During the nine month period ended September 30, 2012, we recognized a decrease to income tax expense of $0.2 million related to our provision reconciliation to the filing of our 2011 Federal income tax return which decreased our effective tax rate from 34.5% to 32.6%.

Liquidity and Capital Resources

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

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 capital expenditures relate primarily to projects relating to our property, merchandising fixtures, molds and equipment associated with our manufacturing operations and for information technology. Capital expenditures were $5.6 million for the first nine months of 2013, compared to $5.1 million for the same period in 2012. Total capital expenditures for 2013 are anticipated to be approximately $7.6 million.

In October 2010, we entered into a financing agreement with PNC Bank (“PNC”) to provide a $70 million credit facility. The term of the facility is five years and the current interest rate is generally LIBOR plus 1.50%.

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 September 30, 2013, no triggering event had occurred and the covenant was not in effect.

The total amount available under our revolving credit facility is subject to a borrowing base calculation based on various percentages of accounts receivable and inventory. As of September 30, 2013, we had total capacity under this facility of $70.0 million of which we had borrowings of $42.4 million.

We believe that our existing 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.

Operating Activities. Cash used by operating activities totaled $11.2 million for the nine months ended September 30, 2013, compared to $2.0 million in the same period of 2012. Cash used by operating activities for the nine months ended September 30, 2013 and 2012 was primarily impacted by seasonally higher inventory and accounts receivable levels, partially offset by increases in accounts payable and accrued liabilities.

Investing Activities. Cash used in investing activities was $5.7 million for the nine months ended September 30, 2013, compared to $5.0 million in the same period of 2012. Cash used in investing activities reflects an investment in property, plant and equipment of $5.6 million in 2013 and $5.1 million in 2012. Our 2013 and 2012 expenditures primarily relate to investments in molds and equipment associated with our manufacturing operations and for information technology.

Financing Activities. Cash provided by financing activities for the nine months ended September 30, 2013 was $17.4 million and was primarily related to a net increase under the revolving credit facility of $18.9 million, partially offset by the payment $1.5 million of dividends on common stock. Cash used in financing activities for the nine months ended September 30, 2012 was $6.9 million and entirely reflected a net reduction under the revolving credit facility.

Inflation

We cannot determine the precise effects of inflation; however, inflation continues to have an influence on the cost of materials, salaries, and employee benefits. We attempt to offset the effects of inflation through increased selling prices, productivity improvements, and reduction of costs.

Critical Accounting Policies and Estimates

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses our interim condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. A summary of our significant accounting policies is included in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2012.

Our management regularly reviews our accounting policies to make certain they are current and also to provide readers of the interim condensed consolidated financial statements with useful and reliable information about our operating results and financial condition. These include, but are not limited to, matters related to accounts receivable, inventories, intangibles and income taxes. Implementation of these accounting policies includes estimates and judgments by management based on historical experience and other factors believed to be reasonable. This may include judgments about the carrying value of assets and liabilities based on considerations that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our management believes the following critical accounting policies are most important to the portrayal of our financial condition and results of operations and require more significant judgments and estimates in the preparation of our interim condensed consolidated financial statements.

Revenue recognition

Revenue principally consists of sales to customers, and, to a lesser extent, license fees. Revenue is recognized when the risk 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.

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 size 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 actual 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.

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 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 to them as required.

Intangible assets

Intangible assets, including goodwill, trademarks and patents are reviewed for impairment annually, and more frequently, if necessary. We perform such testing of goodwill and 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.

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.

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

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief, and expectations, such as statements concerning our future profitability and our operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "p "potential," "continue," "likely" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risks and uncertainties including, without limitation, the factors set forth under the caption “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2012, and other factors detailed from time to time in our other filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect our businesses and financial results and could cause actual results to differ materially from plans and projections. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, there can be no assurance that any of the forward-looking statements included in this Quarterly Report on Form 10-Q 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. All forward-looking statements made in this Quarterly Report on Form 10-Q are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since December 31, 2012.

ITEM 4 – CONTROLS AND PROCEDURES

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

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

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

Internal Controls. There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended September 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None

ITEM 1A - RISK FACTORS

There have been no material changes to our risk factors as disclosed in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – MINE SAFETY DISCLOSRES

None

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
31 (a)*	Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Chief Executive Officer.
31 (b)*	Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Chief Financial Officer.
32 (a)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32 (b)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.

101+	Attached as Exhibits 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in XBRL ("eXtensible Business Reporting Language"): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements.

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* Filed with this report.
\+ Furnished with this report.

SIGNATURE

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

	Rocky Brands, Inc.
Date: November 6, 2013	/s/ James E. McDonald
	James E. McDonald, Executive Vice President and
	Chief Financial Officer*

* In his capacity as Executive Vice President and Chief Financial Officer, Mr. McDonald is duly authorized to sign this report on behalf of the Registrant.