

ROCKY BRANDS, INC.
Form 10-Q
April 25, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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 (I.R.S. Employer
Incorporation or Organization) 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 April 20, 2012, 7,503,568 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**

	March 31, 2012 (Unaudited)	December 31, 2011	March 31, 2011 (Unaudited)
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$2,424,864	\$3,650,291	\$2,230,661
Trade receivables – net	38,587,112	45,008,793	37,459,868
Other receivables	783,349	946,686	1,010,981
Inventories	64,113,346	65,019,048	61,654,840
Income tax receivable	947,575	1,164,664	260,555
Deferred income taxes	1,154,040	1,154,040	1,218,101
Prepaid expenses	2,842,105	2,561,941	3,033,002
Total current assets	110,852,391	119,505,463	106,868,008
FIXED ASSETS – net	24,572,535	23,557,102	22,631,554
IDENTIFIED INTANGIBLES	30,498,545	30,493,107	30,512,025
OTHER ASSETS	468,692	510,293	1,548,308
TOTAL ASSETS	\$166,392,163	\$174,065,965	\$161,559,895
LIABILITIES AND SHAREHOLDERS' EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	\$12,643,640	\$5,696,363	\$10,368,817
Current maturities – long term debt	-	-	463,749
Accrued expenses:			
Salaries and wages	765,143	2,310,906	961,408
Taxes - other	481,847	609,992	554,680
Accrued freight	463,325	633,254	729,659
Commissions	490,331	709,201	596,293
Current portion of pension funding	-	-	680,000
Other	1,056,597	970,806	1,499,918
Total current liabilities	15,900,883	10,930,522	15,854,524

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LONG TERM DEBT – less current maturities	21,512,650	35,000,000	27,300,087
DEFERRED INCOME TAXES	10,987,395	10,987,395	9,374,685
DEFERRED PENSION LIABILITY	-	-	2,738,374
DEFERRED LIABILITIES	488,437	488,437	179,560
TOTAL LIABILITIES	48,889,365	57,406,354	55,447,230

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

Common stock, no par value;

25,000,000 shares authorized; issued and outstanding March 31, 2012

- 7,503,568; December 31, 2011 - 7,489,995 and March 31, 2011 -

7,489,995

	69,694,770	69,572,270	69,546,028
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Accumulated other comprehensive loss

Retained earnings

Total shareholders' equity

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

	-	-	(2,755,425)
	47,808,028	47,087,341	39,322,062
	117,502,798	116,659,611	106,112,665
	\$ 166,392,163	\$ 174,065,965	\$ 161,559,895

See notes to the interim unaudited condensed consolidated financial statements.

ROCKY BRANDS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)**

	Three Months Ended March 31,	
	2012	2011
NET SALES	\$53,325,918	\$52,306,275
COST OF GOODS SOLD	35,303,837	33,040,330
GROSS MARGIN	18,022,081	19,265,945
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	16,742,058	18,229,351
INCOME FROM OPERATIONS	1,280,023	1,036,594
OTHER INCOME AND (EXPENSES):		
Interest expense, net	(144,347)	(215,532)
Other – net	(8,989)	12,554
Total other - net	(153,336)	(202,978)
INCOME BEFORE INCOME TAXES	1,126,687	833,616
INCOME TAX EXPENSE	406,000	292,000
NET INCOME	\$720,687	\$541,616
NET INCOME PER SHARE		
Basic	\$0.10	\$0.07
Diluted	\$0.10	\$0.07
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	7,503,270	7,476,448
Diluted	7,503,270	7,478,611
COMPREHENSIVE INCOME		
Net income	\$720,687	\$541,616
Other comprehensive income:		
Amortization of unrecognized transition obligation,		

service and net loss	-	73,564
TOTAL COMPREHENSIVE INCOME	\$720,687	\$615,180

See notes to the interim unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$720,687	\$541,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,344,368	1,454,857
Deferred compensation and other	-	105,889
(Gain) loss on disposal of fixed assets	(16,844)	36,526
Stock compensation expense	122,500	122,500
Change in assets and liabilities		
Receivables	6,585,018	10,034,061
Inventories	905,702	(2,802,284)
Other current assets	(63,075)	(1,499,705)
Other assets	41,601	(325,596)
Accounts payable	6,631,539	1,416,419
Accrued and other liabilities	(1,976,916)	(2,172,949)
Net cash provided by operating activities	14,294,580	6,911,334
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(2,038,016)	(2,055,667)
Investment in trademarks and patents	(17,782)	(28,706)
Proceeds from sale of fixed assets	23,141	1,724
Net cash used in investing activities	(2,032,657)	(2,082,649)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	9,977,125	16,246,162
Repayments of revolving credit facility	(23,464,475)	(23,445,000)
Repayments of long-term debt	-	(133,144)
Proceeds from exercise of stock options	-	371,427
Net cash used in financing activities	(13,487,350)	(6,960,555)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,225,427)	(2,131,870)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,650,291	4,362,531
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$2,424,864	\$2,230,661

See notes to the interim unaudited condensed consolidated financial statements.

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**ROCKY BRANDS, INC.
AND SUBSIDIARIES**

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTHS ENDED MARCH 31, 2012 AND 2011**

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 months ended March 31, 2012 and 2011 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, 2011. Certain amounts from prior year have been reclassified to conform to current year presentation.

2. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately \$466,000, \$556,000 and \$847,000 at March 31, 2012, December 31, 2011 and March 31, 2011, 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:

March 31,

March 31,

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	2012	December 31, 2011	2011
	(Unaudited)		(Unaudited)
Raw materials	\$10,998,966	\$8,303,064	\$10,759,817
Work-in-process	628,803	476,991	847,197
Finished goods	52,601,357	56,342,273	50,192,066
Reserve for obsolescence or lower of cost or market	(115,780)	(103,280)	(144,240)
Total	\$64,113,346	\$65,019,048	\$61,654,840

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4. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

	(Unaudited) Three Months Ended March 31,	
	2012	2011
Interest	\$ 177,125	\$ 209,900
Federal, state and local income taxes, net of refunds	\$ 165,910	\$ 974,785
Fixed asset purchases in accounts payable	\$ 469,908	\$ 487,795

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-months ended March 31, 2012 and 2011 is as follows:

	(Unaudited) Three Months Ended March 31,	
	2012	2011
Weighted average shares outstanding	7,503,270	7,476,448
Dilutive stock options	-	2,163
Dilutive weighted average shares outstanding	7,503,270	7,478,611

Anti-dilutive stock options/weighted average shares outstanding	13,626	146,389
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6. RECENT FINANCIAL ACCOUNTING STANDARDS

Recently adopted accounting standards

In April 2011, the Financial Accounting and Standards Board (FASB) issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The FASB believes the guidance in this ASU will improve financial reporting by creating greater consistency in the way GAAP is applied for various types of debt restructurings. The ASU clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. The amendments to *FASB Accounting Standards Codification*TM (Codification) Topic 310, *Receivables*, clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. The guidance was effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The adoption of this standard did not have a material effect on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this standard did not have a material effect on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other – (Topic 350) Testing Goodwill for Impairment*. The amendments in this update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Under the amendments to Topic 220, an entity has the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The adoption of this standard did not have a material effect on our consolidated financial statements.

Accounting standards not yet adopted

In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220):*

Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments in this update supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the FASB time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. We are currently assessing the potential impact of the adoption of this amendment on our consolidated financial statements and related disclosures.

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 2008. State jurisdictions that remain subject to examination range from 2007 to 2010. Foreign jurisdiction tax returns that remain subject to examination range from 2005 to 2010 for Canada and from 2005 to 2010 for Puerto Rico. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of March 31, 2012, accrued interest or penalties were not material, and no such expenses were recognized during the quarter. We provided for income taxes at an estimated effective tax rate of 36% and 35% for the three months ended March 31, 2012 and 2011, respectively. The estimated effective tax rate for 2012 is higher than the estimated rate for 2011 as we made additional permanent capital investment in our operations in the Dominican Republic in 2011, which reduced the amount of dividends that we needed to provide for U.S. income taxes. We do not expect to make additional permanent capital investment in 2012.

8. INTANGIBLE ASSETS

A schedule of intangible assets is as follows:

March 31, 2012 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	\$27,243,578	\$ -	\$27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,478,571	2,123,604	354,967
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	\$33,622,149	\$ 3,123,604	\$30,498,545

December 31, 2011	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	\$27,243,578	\$ -	\$27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,460,790	2,111,261	349,529
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	\$33,604,368	\$ 3,111,261	\$30,493,107

March 31, 2011 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	\$27,243,578	\$ -	\$27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,443,398	2,074,951	368,447
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	\$33,586,976	\$ 3,074,951	\$30,512,025

Amortization
expense for
intangible
assets was
\$12,343 and
\$12,165 for
the three

months ended
March 31,
2012 and
2011,
respectively.
The weighted
average
amortization
period for
patents is 15
years

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

2013	\$48,508
2014	47,735
2015	47,160
2016	44,386
2017	39,818

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 March 31, 2012, we were authorized to issue approximately 334,250 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, 2012 through March 31, 2012:

	Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2012	100,000	\$ 21.31
Issued	-	-
Exercised	-	-
Forfeited	(89,000)	\$ 20.93
Options outstanding at March 31, 2012	11,000	\$ 24.36
Options exercisable at:		
January 1, 2012	100,000	\$ 21.31
March 31, 2012	11,000	\$ 24.36
Unvested options at March 31, 2012	-	

During the three-month period ended March 31, 2012, we issued 13,573 shares of common stock to members of our Board of Directors. We recorded compensation expense of \$122,500, 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. These rights expire during June 2012.

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10. RETIREMENT PLANS

Prior to the fourth quarter of 2011, we sponsored a noncontributory defined benefit pension plan covering non-union workers in our Ohio and Puerto Rico operations. Benefits under the non-union plan are based upon years of service and highest compensation levels as defined. On December 31, 2005, we froze the noncontributory defined benefit pension plan for all non-U.S. territorial employees. In the fourth quarter of 2011, we made a determination to fully fund and terminate the pension plan.

Net pension cost of the Company's plan is as follows:

	(Unaudited) Three Months Ended March 31, 2012	2011
Service cost	\$-	\$30,840
Interest	-	156,330
Expected return on assets	-	(156,591)
Amortization of unrecognized net gain or loss	-	54,763
Amortization of unrecognized transition obligation	-	-
Amortization of unrecognized prior service cost	-	18,801
Net pension cost	\$-	\$104,143

11. 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 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	
	March 31,	
	2012	2011
NET SALES:		
Wholesale	\$42,368,412	\$39,794,825
Retail	10,496,171	11,743,667
Military	461,335	767,783
Total Net Sales	\$53,325,918	\$52,306,275
GROSS MARGIN:		
Wholesale	\$12,932,839	\$13,340,154
Retail	5,071,602	5,824,626
Military	17,640	101,165
Total Gross Margin	\$18,022,081	\$19,265,945

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

12. 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 March 31, 2012, 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 March 31, 2012, we had \$21.5 million in borrowings under this facility and total capacity of \$62.0 million.

In April 2011, we repaid the remaining balance of approximately \$1.8 million on our mortgage loans by borrowing under a sub-facility on the PNC credit facility. The sub-facility is secured by real estate owned by us. In connection with this transaction, we incurred approximately \$0.1 million of prepayment and other fees that were reported as additional interest expense in the second quarter of 2011. The mortgage loans were incurring interest at 8.28% and were replaced with borrowings under the credit facility for a current interest rate of LIBOR plus 1.50%.

13. FINANCIAL INSTRUMENTS

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.

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 March 31,	
	2012	2011
Net Sales	100.0%	100.0%
Cost Of Goods Sold	66.2 %	63.2 %
Gross Margin	33.8 %	36.8 %
Selling, General and Administrative Expenses	31.4 %	34.8 %
Income From Operations	2.4 %	2.0 %

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Net sales. Net sales for the three months ended March 31, 2012 were \$53.3 million compared to \$52.3 million for the same period in 2011. Wholesale sales for the three months ended March 31, 2012 were \$42.4 million compared to \$39.8 million for the same period in 2011. The \$2.6 million increase in wholesale sales was the result of a \$1.5 million or 21.6% increase in our western footwear category, a \$1.2 million or 27.9% increase in our commercial military footwear category, a \$1.2 million or 5.7% increase in our work footwear category and a \$0.1 million or 4.7% increase in our outdoor footwear category, which was partially offset by a \$0.8 million or 19.6% decrease in our duty footwear category, a \$0.1 million or 7.9% decrease in apparel and accessories and a \$0.5 million decline in other. Retail sales for the three months ended March 31, 2012 were \$10.5 million compared to \$11.7 million for the same period in 2011. The \$1.2 million decrease in retail sales resulted from our ongoing transition to more internet driven transactions and the decision to remove a portion of our Lehigh mobile stores from operations to help lower operating

expenses and improve margins. Military segment sales for the three months ended March 31, 2012, were \$0.4 million, compared to \$0.8 million in the same period in 2011. 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.

Gross margin. Gross margin for the three months ended March 31, 2012 was \$18.0 million, or 33.8% of net sales, compared to \$19.3 million, or 36.8% of net sales, in the same period last year. Wholesale gross margin for the three months ended March 31, 2012 was \$12.9 million, or 30.5% of net sales, compared to \$13.3 million, or 33.5% of net sales, in the same period last year. The 300 basis point decrease is primarily the result of a rollout to all stores for one of our largest national accounts. This initial roll out negatively impacted gross margins during the quarter due to temporary price concessions and the higher concentration of sales to this large account in the quarter. Retail gross margin for the three months ended March 31, 2012 was \$5.1 million, or 48.3% of net sales, compared to \$5.8 million, or 49.6% of net sales, for the same period in 2011. The 130 basis point decrease is primarily the result of lower average selling prices. Military gross margin for the three months ended March 31, 2012 was less than \$0.1 million, or 3.8% of net sales, compared to \$0.1 million, or 13.2% of net sales, for the same period in 2011.

SG&A expenses. SG&A expenses were \$16.7 million, or 31.4% of net sales, for the three months ended March 31, 2012, compared to \$18.2 million, or 34.9% of net sales for the same period in 2011. The net change primarily reflects decreases in compensation and benefits expense of \$1.0 million and decreased operating expenses of \$0.6 million for our retail operations due to the continued closing of mobile stores, which was partially offset by increases in advertising expenses of \$0.4 million.

Interest expense. Interest expense was \$0.1 million in the three months ended March 31, 2012, compared to \$0.2 million for the same period in the prior year. The decrease of \$0.1 million is primarily the result of lower average borrowings.

Income taxes. Income tax expense for the three months ended March 31, 2012 was \$0.4 million, compared to \$0.3 million for the same period a year ago. We provided for income taxes at effective tax rates of 36% in 2011 and 35% in 2011. The estimated effective tax rate for 2012 is higher than the estimated rate for 2011 as we were anticipating making additional permanent capital investment in our operations in the Dominican Republic in 2011, which reduced the amount of dividends that we needed to provide for U.S. income taxes. We do not expect to make additional permanent capital investment in 2012.

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, retail sales fleet and for information technology. Capital expenditures were \$2.0 million for the first three months of 2012, compared to \$2.1 million for the same period in 2011. Total capital expenditures for 2012 are anticipated to be approximately \$6.3 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 March 31, 2012, no triggering event had occurred and the covenant was not in effect.

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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 March 31, 2012, we had \$21.5 million in borrowings under this facility and total capacity of \$62.0 million.

In April 2011, we repaid the remaining balance of approximately \$1.8 million on our mortgage loans by borrowing under a sub-facility on the PNC credit facility. The sub-facility is secured by real estate owned by us. In connection with this transaction, we incurred approximately \$0.1 million of prepayment and other fees that were reported as additional interest expense in the second quarter of 2011. The mortgage loans were incurring interest at 8.28% and were replaced with borrowings under the credit facility for a current interest rate of LIBOR plus 1.50%.

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 provided by operating activities totaled \$14.3 million for the three months ended March 31, 2012, compared to \$6.9 million in the same period of 2011. Cash provided by operating activities for the three months ended March 31, 2012 was primarily impacted by decreases in accounts receivable, increases in accounts payable and decreases in inventory, partially offset by decreases in accrued expenses. Cash provided by operating activities for the three months ended March 31, 2011 was primarily impacted by reductions in accounts receivable and increases in accounts payable, partially offset by higher inventory.

Investing Activities. Cash used in investing activities was \$2.0 million for the three months ended March 31, 2012, compared to \$2.1 million in the same period of 2011. Cash used in investing activities reflects an investment in property, plant and equipment of \$2.0 million in 2012 and \$2.1 million in 2011. Our 2012 and 2011 expenditures primarily relate to investments in molds and equipment associated with our manufacturing operations and for information technology.

Financing Activities. Cash used in financing activities for the three months ended March 31, 2012 was \$13.5 million and reflects a net reduction under the revolving credit facility of \$13.5 million. Cash used in financing activities for the three months ended March 31, 2011 was \$7.0 million and reflects a net reduction under the revolving credit facility of \$7.2 million and repayments on long-term debt of \$0.1 million.

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, 2011.

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.

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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," "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, 2011, 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, 2011.

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 March 31, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In April 2012, we implemented a new Enterprise Resources Planning system to replace our current system. This implementation had no material effect on 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, 2011.

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

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - MINE SAFETY DISCLOSURES

None

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS

**EXHIBIT EXHIBIT
NUMBER 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.

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 March 31, 2012 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 tagged as blocks of text.

* Filed with this report.

+ Furnished with this report.

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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: April 25, 2012

/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.