ROCKY BRANDS, INC.
Form 10-Q
August 06, 2008

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

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

o **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: 0-21026

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 þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 1, 2008, 5,508,398 shares of Rocky Brands, Inc. common stock, no par value, were outstanding.

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PART I FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS

ROCKY BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (Unaudited)	December 31, 2007	June 30, 2007 (Unaudited)
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	$ 3,025,144	$ 6,537,884	$ 1,446,022
Trade receivables net	59,245,156	65,931,092	60,117,677
Other receivables	1,010,254	674,707	1,368,863
Inventories	85,542,820	75,403,664	83,973,162
Deferred income taxes	1,952,536	1,952,536	3,902,775
Income tax receivable	729,024	719,945	2,561,538
Prepaid expenses	3,117,546	2,226,920	2,118,034
Total current assets	154,622,480	153,446,748	155,488,071
FIXED ASSETS net	24,090,519	24,484,050	24,443,562
DEFERRED PENSION ASSET			40,432
IDENTIFIED INTANGIBLES	36,207,210	36,509,690	36,823,525
GOODWILL			24,874,368
OTHER ASSETS	1,909,678	2,284,039	2,758,801
TOTAL ASSETS	$ 216,829,887	$ 216,724,527	$ 244,428,759
LIABILITIES AND SHAREHOLDERS EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	$ 13,238,830	$ 11,908,902	$ 15,471,858
Current maturities long term debt	338,314	324,648	311,534
Accrued expenses:			
Salaries and wages	722,646	751,134	502,334
Co-op advertising	468,922	840,818	
Interest	468,959	487,446	580,665
Taxes other	840,751	516,038	673,098
Commissions	449,110	717,564	697,628
Other	2,593,954	2,624,121	2,310,034
Total current liabilities	19,121,486	18,170,671	20,547,151
LONG TERM DEBT less current maturities	101,042,347	103,220,384	102,427,204
DEFERRED INCOME TAXES	12,951,828	13,247,953	17,009,025
DEFERRED PENSION LIABILITY	969,218	125,724	
DEFERRED LIABILITIES	288,388	235,204	324,038
TOTAL LIABILITIES	134,373,267	134,999,936	140,307,418
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS EQUITY:			
	54,168,292	53,997,960	53,802,287

Common stock, no par value; 25,000,000 shares authorized; issued and outstanding June 30, 2008 5,508,278; December 31, 2007 5,488,293; June 30, 2007 5,482,293			
Accumulated other comprehensive loss	(1,500,197)	(1,051,232)	(942,036)
Retained earnings	29,788,525	28,777,863	51,261,090
Total shareholders equity	82,456,620	81,724,591	104,121,341
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 216,829,887	$ 216,724,527	$ 244,428,759

See notes to the interim unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
NET SALES	$ 60,507,421	$ 58,797,664	$ 120,992,137	$ 120,454,688
COST OF GOODS SOLD	36,111,328	34,871,210	70,646,379	70,447,548
GROSS MARGIN	24,396,093	23,926,454	50,345,758	50,007,140
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	20,875,459	22,790,579	43,936,946	45,113,520
INCOME FROM OPERATIONS	3,520,634	1,135,875	6,408,812	4,893,620
OTHER INCOME AND (EXPENSES):				
Interest expense, net	(2,409,515)	(3,344,076)	(4,816,186)	(5,842,921)
Other net	15,723	6,994	(2,869)	(36,001)
Total other net	(2,393,792)	(3,337,082)	(4,819,055)	(5,878,922)
INCOME (LOSS) BEFORE INCOME TAXES	1,126,842	(2,201,207)	1,589,757	(985,302)
INCOME TAX EXPENSE (BENEFIT)	394,000	(814,000)	556,000	(364,000)
NET INCOME (LOSS)	$ 732,842	$ (1,387,207)	$ 1,033,757	$ (621,302)
NET INCOME (LOSS) PER SHARE				
Basic	$ 0.13	$ (0.25)	$ 0.19	$ (0.11)
Diluted	$ 0.13	$ (0.25)	$ 0.19	$ (0.11)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	5,508,278	5,473,919	5,508,058	5,465,783
Diluted	5,520,625	5,473,919	5,523,265	5,465,783

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)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,033,757	$ (621,302)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,070,687	2,753,424
Deferred compensation and other	128,493	(20,264)
Deferred debt financing costs		811,582
Gain on disposal of fixed assets	(34,478)	(4,543)
Stock compensation expense	170,332	234,191
Change in assets and liabilities		
Receivables	6,350,389	4,932,484
Inventories	(10,139,156)	(6,024,186)
Other current assets	(899,705)	534,540
Other assets	374,361	606,832
Accounts payable	1,329,118	5,477,302
Accrued and other liabilities	(392,779)	567,474
Net cash provided by operating activities	991,019	9,247,534
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(2,347,911)	(2,687,705)
Investment in trademarks and patents	(30,387)	(49,951)
Proceeds from sale of fixed assets	38,910	8,918
Net cash used in investing activities	(2,339,388)	(2,728,738)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	128,927,562	125,665,531
Repayments of revolving credit facility	(130,932,955)	(140,774,353)
Proceeds from long-term debt		40,000,000
Repayments of long-term debt	(158,978)	(32,644,021)
Debt financing costs		(1,380,439)
Proceeds from exercise of stock options		329,255
Net cash used in financing activities	(2,164,371)	(8,804,027)

DECREASE IN CASH AND CASH EQUIVALENTS	(3,512,740)	(2,285,231)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,537,884	3,731,253
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,025,144	$ 1,446,022

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-MONTH AND NINE-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007

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 consolidated financial statements are considered to be of a normal and recurring nature. The results of the operations for the three-month and six-month periods ended June 30, 2008 and 2007 are not necessarily indicative of the results to be expected for the whole year. Accordingly, these 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, 2007.

The components of total comprehensive income are shown below:

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2008	2007	2008	2007
Net income (loss)	$ 732,842	$ (1,387,207)	$ 1,033,757	$ (621,302)
Other comprehensive income:				
transition obligation, service cost and net loss	37,853	25,573	77,885	51,146
Total comprehensive income (loss)	$ 770,695	$ (1,361,634)	$ 1,111,642	$ (570,156)

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2. INVENTORIES

Inventories are comprised of the following:

	June 30, 2008 (Unaudited)	December 31, 2007	June 30, 2007 (Unaudited)
Raw materials	$ 9,388,532	$ 6,086,118	$ 8,434,319
Work-in-process	803,294	144,171	475,332
Finished goods	75,469,494	69,301,375	75,454,060
Reserve for obsolescence or lower of cost or market	(118,500)	(128,000)	(390,549)
Total	$ 85,542,820	$ 75,403,664	$ 83,973,162

3. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash information including, cash paid for interest and Federal, state and local income taxes, net of refunds, was as follows:

	Six Months Ended June 30,	
	2008	2007
Interest	$ 4,519,746	$ 4,422,762
Federal, state and local income taxes	$ 565,244	$ (1,490,000)
Fixed asset purchases in accounts payable	$ 56,976	$ 204,448

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4. 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-month and six-month periods ended June 30, 2008 and 2007 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average shares outstanding	5,508,278	5,473,919	5,508,058	5,465,783
Diluted stock options	12,347		15,207	
Diluted weighted average shares outstanding	5,520,625	5,473,919	5,523,265	5,465,783
Anti-diluted weighted average shares outstanding	343,889	236,721	343,889	236,721

5. RECENT FINANCIAL ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued *FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157* (FSP FAS 157-2). FSP FAS 157-2 defers implementation of SFAS 157 for certain non-financial assets and non-financial liabilities. SFAS 157 is effective for financial assets and liabilities in fiscal years beginning after November 15, 2007 and for non-financial assets and liabilities in fiscal years beginning after March 15, 2008. We have evaluated the impact of the provisions applicable to our financial assets and liabilities and have determined that there will not be a material impact on our consolidated financial statements. The aspects that have been deferred by FSP FAS 157-2 pertaining to non-financial assets and non-financial liabilities will be effective for us beginning January 1, 2009. We are currently reviewing SFAS 157 and FSP FAS 157-2 to determine the impact and materiality of their adoption on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefits Pension and Other Postretirement Plans, an Amendment of FASB Statements 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158, requires an employer to recognize in its statement of financial position the funded status of its defined benefit plans and to recognize as a component of other comprehensive income, net of tax, any unrecognized transition obligations and assets, the actuarial gains and losses and prior service costs and credits that arise during the

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period. The recognition provisions of SFAS 158 were effective for fiscal years ending after December 15, 2006. The adoption of SFAS 158 as of December 31, 2006 resulted in a write-down of our pension asset by $1.6 million, increased accumulated other comprehensive loss by $1.0 million, and decreased deferred income tax liabilities by $0.6 million. In addition, SFAS 158 requires a fiscal year end measurement of plan assets and benefit obligations, eliminating the use of earlier measurement dates previously permissible. However, the new measurement date requirement is effective and we have changed our measurement date to December 31st.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for annual periods in fiscal years beginning after November 15, 2007. If the fair value option is elected, the effect of the first re-measurement to fair value is reported as a cumulative effect adjustment to the opening balance of retained earnings. In the event we elect the fair value option promulgated by this standard, the valuations of certain assets and liabilities may be impacted. The statement is applied prospectively upon adoption. We have evaluated the impact of the provisions of SFAS 159 and have determined that there will not be a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R replaces SFAS 141, *Business Combinations.* The objective of SFAS 141R is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase option; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on of after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption of SFAS 141R is prohibited. We do not anticipate the adoption of SFAS 141R will have a material impact on our financial statements.

In December 2007, the FASB issued SFAS No, 160, *Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No, 51* (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing certain accounting and reporting standards that address: the ownership interests in subsidiaries held by parties other than the parent; the amount of net income attributable to the parent and non-controlling interest; changes in the parent s ownership interest; and any retained non-controlling equity investment in a deconsolidated subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption of SFAS 160 is prohibited. We do not anticipate the adoption of SFAS 160 will have a material impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB No. 133* (SFAS 161). SFAS 161 intends to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. SFAS 161 also requires disclosure about an entity s strategy and objectives for using derivatives, the fair values of derivative instruments and their related gains and losses. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently evaluating the impact of adopting SFAS 161 and do not anticipate that its adoption will have a material impact on our consolidated financial statements.

6. INCOME TAXES

We file income tax returns in the U.S. Federal jurisdiction and various state and foreign jurisdictions. An examination of our 2004 Federal income tax return resulted in an immaterial adjustment. The examination of the 2003 Federal income tax return resulted in no changes. We are no longer subject to U.S. Federal tax examinations for years before 2003. State jurisdictions that remain subject to examination range from 2003 to 2006. Foreign jurisdiction (Canada and Puerto Rico) tax returns that remain subject to examination range from 2001 to 2006. 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 the date of adoption of FIN 48, accrued interest or penalties were not material, and no such expenses were recognized during the quarter.

We provided for income taxes at estimated effective tax rates of 35% and 37% for the three-month and six-month periods ended June 30, 2008 and 2007, respectively.

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7. INTANGIBLE ASSETS

A schedule of intangible assets is as follows:

June 30, 2008 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$ 28,278,595	$ 129,377	$ 28,149,218
Retail	6,900,000		6,900,000
Patents	2,300,438	1,442,446	857,992
Customer relationships	1,000,000	700,000	300,000
Total Identified Intangibles	$ 38,479,033	$ 2,271,823	$ 36,207,210

December 31, 2007	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$ 28,272,514	$ 86,251	$ 28,186,263
Retail	6,900,000		6,900,000
Patents	2,276,132	1,252,705	1,023,427
Customer relationships	1,000,000	600,000	400,000
Total Identified Intangibles	$ 38,448,646	$ 1,938,956	$ 36,509,690

June 30, 2007 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$ 28,260,640	$ 43,126	$ 28,217,514
Retail	6,900,000		6,900,000
Patents	2,269,662	1,063,651	1,206,011
Customer relationships	1,000,000	500,000	500,000
Total Identified Intangibles	$ 38,430,302	$ 1,606,777	$ 36,823,525