Cornerstone OnDemand Inc
Form 10-K
February 27, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2014

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: 001-35098

Cornerstone OnDemand, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-4068197
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1601 Cloverfield Blvd.
Santa Monica, California 90404
(Address of principal executive offices and zip code)
Registrant’s telephone number, including area code: (310) 752-0200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”). Yes ¨ No ý

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 ý 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 ý No ¨

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 ý

The aggregate market value of voting and non-voting common stock equity held by non-affiliates of the registrant, as of June 30, 2014, the last day of registrant's most recently completed second fiscal quarter, was $1,833,098,875 (based on the closing price for shares of the registrant's common stock as reported by the NASDAQ Global Select Market on June 30, 2014).

On February 20, 2015, 53,882,523 shares of the registrant's common stock, $0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Form 10-K are hereby incorporated by reference from the definitive Proxy Statement for our annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014.

CORNERSTONE ONDEMAND, INC.
2014 ANNUAL REPORT ON FORM 10-K
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TRADEMARKS

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are any statements that look to future events and consist of, among other things, statements regarding our business strategies; anticipated future operating results and operating expenses; our ability to attract new clients to enter into subscriptions for our solutions; our ability to service those clients effectively and induce them to renew and upgrade their deployments of our solutions; our ability to expand our sales organization to address effectively the new industries, geographies and types of organizations we intend to target; our ability to accurately forecast revenue and appropriately plan our expenses; market acceptance of enhanced solutions; alternate ways of addressing talent management needs or new technologies generally by us and our competitors; continued acceptance of SaaS as an effective method for delivering talent management solutions and other business management solutions; the attraction and retention of qualified employees and key personnel; our ability to protect and defend our intellectual property; costs associated with defending intellectual property infringement and other claims; our ability to exploit Big Data to drive increased demand for our products; events in the markets for our solutions and alternatives to our solutions, as well as in the United States and global markets generally; future regulatory, judicial and legislative changes in our industry; our ability to successfully integrate our operations with those of recently acquired companies; and changes in the competitive environment in our industry and the markets in which we operate. In addition, forward-looking statements also consist of statements involving trend analyses and statements including such words as “may,” “believe,” “could,” “anticipate,” “would,” “might,” “plan,” “expect,” and similar expressions or the negative of such terms or other comparable terminology. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in Part I, Item 1A, “Risk Factors,” and in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made.

Item 1. Business

Overview

Cornerstone OnDemand, Inc. was incorporated on May 24, 1999 in the state of Delaware and began its principal operations in November 1999. Unless the context requires otherwise, the words “Cornerstone,” “we,” “Company,” “us” and “our” refer to Cornerstone OnDemand, Inc. and its wholly owned subsidiaries.

Cornerstone is a leading global provider of comprehensive talent management solutions delivered as Software-as-a-Service (“SaaS”). Our solutions are designed to enable organizations to meet the challenges they face in empowering and maximizing the productivity of their human capital.

Our Enterprise and Mid-Market solution is a comprehensive and unified cloud-based suite that addresses hiring, developing, engaging employees throughout their careers and cultivating future leaders. Our Enterprise and Mid-Market solution also helps improve business execution through integrating with an organization’s extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content.

In addition to our Enterprise and Mid-Market solution, we also offer Cornerstone Growth Edition, formerly known as Cornerstone for Small Business. Cornerstone Growth Edition is a cloud-based talent management solution with learning and performance product offerings targeted to organizations with fewer than 400 employees.

Our clients include multi-national corporations, large domestic and foreign-based enterprises, mid-market companies, public sector organizations, higher education institutions, and non-profit entities. We sell our solutions domestically and internationally through both direct and indirect channels, including direct sales teams throughout North and South America, Europe, and Asia-Pacific and distributor relationships with payroll, consulting and human resource, or HR, services companies.

We have grown our business each of the last 13 years, and since 2002, we have averaged an annual dollar retention rate of approximately 95%, as described in the section titled, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Metrics.” Since 2001, our implied monthly recurring revenue from existing clients has been greater at the end of each year than at the beginning of the year. Our revenue has grown to $263.6 million in 2014 from $185.1 million in 2013 and from $117.9 million in 2012. As of December 31, 2014, 2,153 clients used our Enterprise and Mid-Market solution to empower approximately 18.1 million users across 191 countries in 42 different languages.

The Market

Human capital is both a major asset and expense for all organizations. Based on the U.S. Bureau of Labor Statistics data as of September 2014, total compensation paid to the United States civilian workforce of approximately 155.8 million people was expected to exceed $10.4 trillion in 2014.

Accordingly, organizations have long sought to optimize their investments in human capital. We believe that organizations face six major challenges in maximizing the productivity of their internal and external human capital:

- Acquiring Talent. Increasingly seeking to fill open positions by recruiting internally and by leveraging the external networks of their employees, corporate recruiting has evolved from a process that was principally driven by traditional sources such as inbound resume submissions and job board postings to one that is inherently social in nature.
- Developing Talent. Effectively orienting new hires and training employees throughout their careers to achieve their full potential, which has become more difficult with the Millennial generation entering the workforce, increasingly distributed workforces and heightened compliance requirements.
- Engaging Employees. Connecting with employees at all levels and locations of the organization to keep them motivated, which has become more difficult with the rise of globalization and telecommuting.
- Improving Business Execution. Ensuring the effective alignment of employee behavior with the organization's objectives through goal management and employee assessment and development, as well as by linking compensation to performance.
- Building a Leadership Pipeline. Identifying, grooming and retaining individuals for leadership positions at all levels and across all parts of the organization, which has become an acute challenge with the growing mobility and turnover of employees and the impending retirements of the Baby Boomers.
- Integrating with the Extended Enterprise of Customers, Vendors and Distributors. Delivering training, certification programs and resources to the organization's network of customers, vendors, distributors and other third parties that constitute the organization's extended enterprise, which has become more difficult with the rise of outsourcing and increasing globalization.

Until the advent of software technology in the 1970's, written tracking systems were the only solution available for managing human capital. Software-based solutions such as spreadsheet-based tracking systems, custom-built software applications, third-party human resource information systems and third-party software applications provided by on-premise software vendors gradually became available. We refer to all of these approaches as hosted or on-premise solutions.

More recently, SaaS vendors dedicated to providing talent management software have emerged. We believe that just as organizations are increasingly choosing SaaS solutions for business applications such as sales force management, they are also increasingly adopting SaaS talent management solutions.

Many of the existing solutions suffer from one or more of the following shortcomings:

- Narrow Functionality. As they only address specific stages of the employee lifecycle, many solutions lack sufficient breadth of functionality to maximize employee productivity effectively.
- Limited Configurability. Most solutions are rigid and limit the ability of organizations to match their diverse workflows or to adopt their desired talent management practices.
- Difficult to Use. Inputting, updating, analyzing and sharing information is often cumbersome, resulting in low employee adoption and usage.
- Costly to Deploy, Maintain and Upgrade. Hosted or on-premise solutions require significant expense and time to deploy as well as require ongoing costs associated with IT support, network infrastructure, maintenance and upgrades.
- Inability to Scale. Many solutions are designed to support the needs of smaller organizations and have difficulty meeting the complex functional requirements or the sizeable infrastructure demands of larger enterprises.

Given the limitations of existing offerings, we believe there is a market opportunity for comprehensive, unified solutions that help organizations manage all aspects of their internal and external human capital and link talent management to their business strategy.

The Cornerstone OnDemand Answer

Our Enterprise and Mid-Market solution is a comprehensive SaaS suite that consists of product offerings to help organizations manage their recruiting, onboarding, learning, performance, succession, compensation and enterprise social collaboration processes.

Our suite includes a number of cross-product tools for talent management analytics and reporting, employee profile management, and e-learning content aggregation and delivery. We also provide consulting services for configuration, integration and training for our suite. We believe that our Enterprise and Mid-Market solution delivers the following benefits:

- Comprehensive Functionality. Our suite provides a comprehensive approach to talent management by offering products to address all stages of the employee lifecycle: recruiting, onboarding, learning, performance, succession, compensation and enterprise social collaboration processes. Employees use our solutions throughout their careers to engage in performance processes such as goal management, performance reviews, competency assessments and compensatory reviews; to complete job-specific and compliance-related training; to evaluate potential career changes, development plans or succession processes; and to connect with co-workers by leveraging enterprise social networking tools.

Our clients can manage processes that span different talent management functions because our product offerings are unified. For example, our clients can automatically identify skill gaps as part of an employee's performance review, assign training to address those gaps and monitor the results of that training. Also, clients can identify high potential employees for future leadership positions and place them in executive development programs.

We believe our comprehensive, unified suite allows our clients to align their talent management processes and practices with their broader strategic goals.

- Flexible and Highly Configurable. Our suite offers substantial configurability that allows our clients to match the use of our software with most of their specific business processes and workflows. Our clients can configure various features, functions and work flows in our suite by business unit, division, department, region, location, job position, pay grade, cost center, or self-defined organizational unit. Our clients are able to adjust features to configure specific processes, such as performance review workflows or training approvals, to match their existing or desired practices. This high level of configurability means that custom coding projects generally are not required to meet the diverse needs of our clients.

Our clients can deploy the product offerings individually or in any combination. As a result, our clients have the flexibility to purchase solely those products that solve their immediate talent management needs and can incrementally deploy additional products in the future as their needs evolve.

- Easy-to-Use, Personalized User Interface. Our suite employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the solution. This ease of use limits the need for end-user training, which we believe increases user adoption rates and usage. While we typically train administrators, most clients do not need training on using our products.
- Software-as-a-Service Solution Lowers the Total Cost of Ownership and Speeds Delivery. Our suite is accessible through a standard web browser and does not require the large investments in implementation time, personnel, hardware, and consulting that are typical of hosted or on-premise solutions. With a single code base to maintain, we are able to release improved functionality on a quarterly basis. This is a more rapid pace than most hosted or on-premise solution providers can afford to deliver.
- Scalable to Meet the Needs of Organizations. Our suite has been used by Fortune 100 companies since 2001. While the complex needs of these global corporations required us to build a solution that can scale to support large, geographically-distributed employee bases, our suite is capable of supporting deployments of various sizes. Today we service 17 multi-national corporations with over 150,000 active users each. Our largest deployment is for over 350,000 users.
- Continued Innovation through Collaborative Product Development. We work collaboratively with our clients on an ongoing basis to develop almost every part of our suite. The vast majority of our thousands of software features were designed with existing and prospective clients based on their specific functional requests.

Our Strategy

Our goal is to empower people, organizations, and communities with our comprehensive talent management solutions. Key elements of our strategy include:

Retain and Expand Business with Existing Clients. We believe our existing installed base of clients offers a substantial opportunity for growth.

- Focus on Client Success, Retention and Growth. We believe focusing on our clients' success will lead to our own success. We have developed a Client Success Framework that governs our operational model. Since 2002, we have had an average annual dollar retention rate of approximately 95%. We strive to maintain our strong retention rates by continuing to provide our clients with high levels of service and support and increasing functionality.

- Sell Additional Products to Existing Clients. We believe there is a significant growth opportunity in selling additional functionality to our existing clients. Many clients have added functionality subsequent to their initial deployments as they recognize the benefits of our unified suite, and as a result, more than half of our clients today utilize the equivalent of two or more products. Still, we believe significant upsell opportunity remains within our existing client base. Not only is our goal to sell these clients additional products and services, but we also believe there is an opportunity to sell many of them additional products within our unified suite.

Strengthen Current Sales Channels. We intend to increase our investments in both direct and indirect sales channels to acquire new clients.

- Invest in Direct Sales in North America. We believe that the market for talent management is large and remains significantly underpenetrated. As a result, we plan to continue to grow both our enterprise and mid-market direct sales teams.
- Expand and Strengthen Our Alliances. We intend to grow our distribution channels through key business alliances, including agreements with global vendors such as Aon Hewitt, Appirio, Inc., Automatic Data Processing, Inc., Ellucian Company L.P., Tribridge, Workday, Inc., and Xerox Corporation, as well as the continued expansion of our regional relationships with distributors like CDP Group, Limited (China), eLearning99 (China), ISQ eLearning (Portugal), Kalleo Learning (South Africa), Logica plc (Europe), Neoris de Mexico, S.A. de C.V. (Mexico), Neospheres SAS (France), Sage Software, Inc. (North America), T2 Optimise PTY Ltd. (Asia Pacific), Talentech (Israel) and Xchanging HR Services Limited (United Kingdom).
- Significantly Grow Our International Operation. We believe a substantial opportunity exists to continue to grow sales of our solutions internationally. We intend to grow our Europe, Middle-East and Africa, or EMEA, and Asia-Pacific operations, which provide for direct sales, alliances, services and support in the regions. We have grown our EMEA client base from one client at December 31, 2007 to 316 clients at December 31, 2014 and our Asia-Pacific client base from two clients at December 31, 2009 to 90 clients at December 31, 2014.

Continue to Innovate and Extend Our Technological Leadership. We believe we have developed over the last decade a deep understanding of the talent management challenges our clients face. We continually collaborate with our clients to build extensive functionality that addresses their specific needs and requests. We plan to continue to leverage our expertise in talent management and client relationships to develop new products, features and functionality which will enhance our solutions and expand our addressable market.

Make Cornerstone Built to Last. Our growth strategy since inception has been deliberate, disciplined and focused on long-term success. This has allowed us to weather periods of economic turmoil and significant changes in the markets we serve without undergoing layoffs or business contraction. We plan to take the same systematic approach in the future.

Acquisitions. In April 2012, we completed our acquisition of Sonar Limited, or Sonar, a cloud-based talent management solution provider serving small businesses globally. Sonar’s talent management solution was subsequently rebranded as Cornerstone Growth Edition.

In November 2014 we acquired Evolv Inc., or Evolv, a San Francisco based workforce planning and predictive analytics platform provider. The acquisition accelerates our big data initiative by accelerating the roadmap for workforce planning and predictive analytics. In addition, the acquisition adds a seasoned team with deep machine learning and big data analytics expertise to our portfolio of talented professionals which is expected to create synergies and continue to strengthen our core talent management suite.

Evolv’s platform helps organizations utilize relevant internal and external data to objectively evaluate the skills, work experience and personalities of their employees and job candidates. The acquisition of Evolv is expected to expand our clients’ ability to make intelligent workforce decisions by providing:

- Machine Learning Platform Technology. Evolv applies sophisticated predictive models and algorithms to large sets of data for extracting insights from the noise, identifying patterns and uncovering the true drivers of workforce performance.
- Data Science. Evolv’s team of data scientists has applied several state-of-the-art statistical methodologies and econometric techniques to improve the predictive capabilities of its solutions.
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Big Data Infrastructure. Evolv has built highly scalable big data analytics leveraging modern Hadoop, HBase and Hive Big Data technologies to process and analyze massive data sets.

In the future, we may seek to acquire or invest in additional businesses, products or technologies that we believe will complement or expand our solutions, enhance our technical capabilities or otherwise offer growth opportunities.
We are also committed to empowering our employees and the communities around us, in part demonstrated by our involvement in the Cornerstone OnDemand Foundation.
Our Solutions
Our Enterprise and Mid-Market solution is a comprehensive talent management suite that our clients use to find, develop, connect, evaluate and engage their human capital. We built this suite using a single code base and a multi-tenant, multi-user architecture that we host in our data centers. The suite consists of a collection of product offerings to help organizations manage their recruiting, onboarding, learning, performance, succession, compensation, enterprise social collaboration processes and a product to manage training for their external networks of partners, suppliers, resellers, distributors and customers. To complement our product suite, we offer a number of cross-product tools for analytics and reporting, employee profile management and e-learning content aggregation.
Our Product Offerings
Cornerstone Recruiting. Our recruiting product offering supports the modern ways that businesses source, recruit and hire new employees. The recruiting product offering is fully integrated with our existing talent management suite. It was built using Cornerstone's pure-cloud, multi-tenant architecture, leveraging a common platform, workflow engine, and reporting and administration model. This architecture provides clients with faster deployments, greater flexibility to adapt and change the application without cost or risk, and a seamless user experience across all Cornerstone applications. Clients use the recruiting product offering to:

- manage job requisitions;
- post jobs across both traditional job boards and social networks;
- create internal career centers and external career sites;
- manage and enhance employee referral programs;
- identify existing employee connections with candidates;
- quickly assess candidate skills and competencies;
- collaborate with hiring managers and employees throughout the screening process;
- search and compare internal and external candidates; and
- build ongoing talent pools.

Cornerstone Onboarding. Our onboarding product offering delivers the resources, connections and tools at critical points across the employee lifecycle. The onboarding product offering complements the recruiting product offering to reduce administrative hassle and promote collaboration between employees, managers, HR and across departments. Clients use the onboarding product offering to:

- provide self-service portals where new hires can learn about the company and access critical information;
- administer new hire forms from one centralized location;
- track the entire onboarding process with the ability to set goals and reminders in order to accelerate time to productivity;
- engage new hires by establishing virtual communities and connecting new hires with their colleagues; and
- accommodate transitions across the full employee lifecycle.

Cornerstone Learning. Our learning product offering helps clients deliver and manage enterprise training and development programs. It links employee development to other parts of the talent management lifecycle, including performance management and succession planning. The learning product offering supports all forms of training, including instructor-led training, e-learning and virtual classroom sessions. We have made tens of thousands of online training titles from dozens of global e-learning providers accessible through the learning product offering to help clients reduce overall training expense and cost-effectively migrate to blended learning curricula of online and instructor-led training. Clients use the learning product offering to:

- manage local and global compliance programs, including the tracking of any recurring or non-recurring license, designation, certification, or other compliance-related training and continuing education requirements;
- access thousands of e-learning classes from our existing off-the-shelf content providers;
- create, publish and deliver the client’s own proprietary training content with our authoring tools;

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- automate the administration of instructor-led training sessions, and launch and track virtual classrooms through integrations with third-party tools like Cisco Webex and Microsoft LiveMeeting;
- deliver sophisticated curricula that can include multiple sequenced parts, multiple types of training and enforcement of pre-requisites and follow-up assignments;
- report on costs, participation levels and evaluations of development programs through permission-based dashboards, standard reports and custom reports; and
- enable enterprise social collaboration through rich user profiles as well as the ability to participate in discussions, send messages, contribute to corporate wikis, author blogs, subscribe to information feeds and download audio and videocasts.

Cornerstone Performance. Our performance product offering allows clients to direct and measure performance at the individual, departmental and organizational levels through ongoing competency management, organizational goal setting, performance appraisal, and development planning. Performance data can also be used by the learning product offering to set training priorities and to make informed workforce planning decisions. Clients use the performance product offering to:

- cascade, track and report goals across the organization to improve business execution and proactively manage organizational objectives;
- identify competency and skill gaps within an organization through manager and peer assessments, using either the client's own proprietary models or third-party competency models;
- automate the annual and interim review process, benefit from a configurable workflow engine to design review questions and steps, automatically include the reviewee's individual goals and competencies, provide managers with a comment assistant and calibrate review scores;
- allow managers to work with employees to develop personalized development plans or dynamically create individualized development plans based on competency gaps; and
- view dashboards or generate reports and meaningful data on every phase of the performance management cycle.

Cornerstone Succession. Our succession product offering allows clients to proactively plan for organizational change. The succession product offering serves both the employee looking for career advancement and the executive team planning for the future. Clients use the succession product offering to:

- make informed decisions about succession planning, potential organizational changes and retention of high-potential employees at all hierarchical levels;
- develop succession plans that prepare employees for future roles and map development paths;
- create interactive organizational charts that can reflect the current hierarchy of the organization and model for potential changes within the hierarchy; and
- allow managers to visualize their organization in a grid to see performance and potential information.

Cornerstone Compensation. Our compensation product offering allows clients to reward their employees for hard work in direct relation to performance. The compensation product offering enables clients to make more informed decisions about the allocation of base pay, bonus and equity awards. Clients use the compensation product offering to:

- develop a pay-for-performance culture, aligning compensation allocation decisions with actual employee performance and goal achievement;
- coordinate all types of compensation programs, including salaries, merit increases, market adjustments and lump sum payments;
- build and administer various incentive programs;
- pull key data around compensation adjustment guidelines; and
- make informed compensation decisions by combing organizational data, performance data and compensation models.

Cornerstone Extended Enterprise. Our extended enterprise product offering helps clients extend talent management to their customers, vendors, and distributors. The extended enterprise product offering enables clients to develop new profit centers, increase sales, cut support costs and boost channel productivity. Clients use the extended enterprise product offering to:

- administer for-profit training programs to their own customers more effectively, providing them with a delivery tool, an automated registration system and e-commerce capabilities;

- improve strategic partner enablement with better training, online best practice centers and more readily-available information on products and services;
- increase customer engagement through social collaboration, virtual communities, educational programs and the enablement of customer-driven product innovation initiatives;

- manage distributor certification programs; and

deliver training and targeted information to members of trade associations or other member-based organizations.
Cornerstone for Salesforce. Our Cornerstone for Salesforce product is a learning solution developed natively on the Salesforce.com platform. The Cornerstone for Salesforce product allows organizations to improve sales performance by providing access to just-in-time training embedded within Salesforce. Clients use the Cornerstone for Salesforce product offering to:

- deliver just-in-time training and onboarding programs for sales and service teams, partners and customers with target specific content based on opportunity records;
- certify sales and partner knowledge while ensuring compliance standards are met with Salesforce's configurable dashboard reporting for sales leadership; and
- assist sales leadership in identifying top performing reps and those in need of training development through a comprehensive view of a company's sales organization.

Cross-Product Tools

Our Enterprise and Mid-Market solution has a number of capabilities that cross each of our unified product offerings. These include:

- Analytics, Reporting, and Dashboards. Our Enterprise and Mid-Market solution employs a proprietary reporting engine. In addition to approximately 145 included standard reports, this solution includes a custom reporting tool that allows clients to create highly specific reports. This solution also includes dashboard technology to present graphical views of complex data.
- Talent Profiles. Managers can access integrated Talent Profiles to review key employee data in several locations across our Enterprise and Mid-Market solution. Talent Profiles function as employee identification cards, detailing user record information, performance ratings, succession management data, enterprise social collaboration activity and informal manager comments. These profiles are available throughout this solution where quick access to information is desired, including in performance reviews, organizational charts, succession plans, compensation plans and user record editing.
- E-Learning Content Aggregation. We have entered into relationships with many off-the-shelf e-learning content vendors. This enables us to provide access to tens of thousands of e-learning classes for distribution across our Enterprise and Mid-Market solution. E-learning, like other forms of training, can be delivered in conjunction with development plans, competency assessments, succession planning scenarios, talent pools and career path exploration.
- Cornerstone Mobile. Cornerstone Mobile allows clients to access some of the products and features of our Enterprise and Mid-Market talent management suite from their mobile device. Key capabilities of Cornerstone Mobile include enabling clients to view employee profiles, search the employee directory, and access just-in-time video training.

Consulting Services

We offer comprehensive services to our clients to assist in the successful implementation of our solutions and to optimize our clients' use of our solutions during the terms of their engagements. Our consulting services are offered at fixed fees or on a time-and-material basis.

With our SaaS model, we have eliminated the need for lengthy and complex technology integrations, such as customizing software code, deploying equipment or maintaining unique delivery models or hardware infrastructure for individual clients. As a result, we typically deploy our Enterprise and Mid-Market solution in significantly less time than required for similar deployments of hosted or on-premise software. Our consulting services include:

- Implementation Services. We deploy our Enterprise and Mid-Market solution to clients through a documented process of discovery, design, and configuration. Most enterprise implementations require services for systems integration, data loading, and software configuration, as well as support with change management. For mid-market clients, this solution can be implemented in a matter of weeks. For enterprise clients, implementation typically takes three to four months.

• Integration Services. We provide a range of services and self-service tools to load data into a client's portal and to integrate our Enterprise and Mid-Market solution with our client's existing systems. Integration services include data feeds to and from HR information systems and	205,490,194	$168,579,429	$186,961,658

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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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
NET SALES	$71,020,546	$74,760,244	$175,609,453	$186,062,284
COST OF GOODS SOLD	45,430,389	47,575,649	110,136,023	121,021,756
GROSS MARGIN	25,590,157	27,184,595	65,473,430	65,040,528
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	18,026,065	19,159,541	53,108,445	53,347,582
INCOME FROM OPERATIONS	7,564,092	8,025,054	12,364,985	11,692,946
OTHER INCOME AND (EXPENSES):				
Interest expense - net	(252,858)	(955,033)	(760,844)	(4,721,176)
Other - net	106,033	246,334	153,442	286,451
Total other - net	(146,825)	(708,699)	(607,402)	(4,434,725)
INCOME BEFORE INCOME TAXES	7,417,267	7,316,355	11,757,583	7,258,221
INCOME TAX EXPENSE	2,205,000	2,634,000	3,724,000	2,613,000
NET INCOME	$5,212,267	$4,682,355	$8,033,583	$4,645,221
NET INCOME PER SHARE				
Basic	$0.70	$0.63	$1.07	$0.71
Diluted	$0.70	$0.63	$1.07	$0.71
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	7,489,995	7,407,409	7,485,529	6,522,058
Diluted	7,489,995	7,422,194	7,486,250	6,541,192

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, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$8,033,583	$4,645,221
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,279,667	4,209,421
Deferred compensation and other	670,552	420,891
Deferred income taxes	126,279	(26,334)
Loss on disposal of fixed assets	37,320	14,038
Stock compensation expense	122,500	129,900
Change in assets and liabilities		
Receivables	(15,890,635)	(15,272,563)
Inventories	(20,034,511)	(7,493,310)
Other current assets	(1,029,102)	(185,515)
Other assets	485,223	1,145,769
Accounts payable	2,275,812	2,740,554
Accrued and other liabilities	574,398	3,691,301
Net cash used in operating activities	(20,348,914)	(5,980,627)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(6,020,945)	(3,729,619)
Investment in trademarks and patents	(46,098)	(23,118)
Proceeds from sale of fixed assets	50,767	24,860
Net cash used in investing activities	(6,016,276)	(3,727,877)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	67,246,458	196,671,708
Repayments of revolving credit facility	(40,290,000)	(169,463,530)
Debt financing costs	-	(150,000)
Repayments of long-term debt	(1,995,030)	(29,380,841)
Issuance of common stock, net of issuance costs	-	14,105,600
Proceeds from exercise of stock options	371,427	94,380
Net cash provided by financing activities	25,332,855	11,877,317
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,032,335)	2,168,813
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,362,531	1,797,093
CASH AND CASH EQUIVALENTS, END OF PERIOD	$3,330,196	$3,965,906

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, 2011 AND 2010

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, 2011 and 2010 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, 2010.

The components of total comprehensive income are shown below:

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ 5,212,267	$ 4,682,355	$ 8,033,583	$ 4,645,221
Other comprehensive income:				
Amortization of unrecognized transition obligation, service cost and net loss	73,564	89,952	220,692	269,854
Total comprehensive income	$ 5,285,831	$ 4,772,307	$ 8,254,275	$ 4,915,075

2. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately $703,000, $868,000 and $1,048,000 at September 30, 2011, December 31, 2010 and September 30, 2010, respectively. The allowance for uncollectible accounts is calculated based on the relative age and size of trade receivable balances.

3. INVENTORIES

Inventories are comprised of the following:

	September 30, 2011 (Unaudited)	December 31, 2010	September 30, 2010 (Unaudited)
Raw materials	$ 8,640,940	$ 7,728,707	$ 10,641,734
Work-in-process	688,133	410,110	732,910
Finished goods	69,689,314	50,764,439	51,586,413
Reserve for obsolescence or lower of cost or market	(131,320)	(50,700)	(47,280)
Total	$ 78,887,067	$ 58,852,556	$ 62,913,777

4. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

	(Unaudited) Nine Months Ended September 30, 2011	2010
Interest	$ 742,106	$ 3,763,729
Federal, state and local income taxes, net of refunds	$ 2,107,815	$ 385,112
Fixed asset purchases in accounts payable	$ 314,146	$ 79,373

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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, 2011 and 2010 is as follows:

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted average shares outstanding	7,489,995	7,407,409	7,485,529	6,522,058
Dilutive stock options	-	14,785	721	19,134
Dilutive weighted average shares outstanding	7,489,995	7,422,194	7,486,250	6,541,192
Anti-dilutive stock options/weighted average shares outstanding	135,370	196,000	139,689	210,090

6. RECENT FINANCIAL ACCOUNTING STANDARDS

Recently adopted accounting standards

In September 2009, the Financial Accounting Standards Board (FASB) issued an accounting standards update (ASU), Revenue Recognition – Multiple Deliverable Revenue Arrangements. This update addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how to allocate the consideration to each unit of accounting. This update eliminates the use of the residual value method for determining allocation of arrangement consideration and allows the use of an entity's best estimate to determine the selling price if vendor specific objective evidence and third-party evidence cannot be determined. This update also requires additional disclosure to provide both qualitative and quantitative information regarding the significant judgments made in applying this update. In addition, for each reporting period in the initial year of adoption, this update requires disclosure of the amount of revenue recognized subject to the measurement requirements of this update and the amount of revenue that would have been recognized if the related transactions were subject to the measurement requirements prior to this update. This update is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. The adoption of this standard did not have a material effect on our consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This ASU reflects the decision reached in EITF Issue No. 10-A. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this standard did not have a material effect on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU reflects the decision reached in EITF Issue No. 10-G. The amendments in this ASU affect any public entity as defined by Topic 805, Business Combination that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this standard did not have a material effect on our consolidated financial statements.

In April 2011, the 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™ (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.

Accounting standards not yet adopted

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. Early application by public entities is not permitted. We are currently assessing the potential impact of the adoption of this standard on our consolidated financial statements and related disclosures.

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. We are currently assessing the potential impact of the adoption of this standard on our consolidated financial statements and related disclosures.

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. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. We are currently assessing the potential impact of the adoption of this standard on our consolidated financial statements and related disclosures.

In September 2011, the FASB issued ASU No. 2011-09, Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80) Disclosures about an Employer's Participation in a Multiemployer Plan. The amendments in this update require additional disclosures about an employer's participation in a multiemployer plan. For public entities, the amendments in this Update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. We are currently assessing the potential impact of the adoption of this standard 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 2006 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 September 30, 2011, 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 32.6% and 37.6% for the nine months ended September 30, 2011 and 2010, respectively. The estimated effective tax rate for 2011 is lower than the estimated rate for 2010 as we expect to make additional permanent capital investment in our operations in the Dominican Republic, which will reduce the amount of dividends that we will need to provide for U.S. income taxes.

During the three and nine-month periods ended September 30, 2011, we recognized a decrease to income tax expense of $0.1 million related to the filing of our 2010 Federal income tax return which decreased our effective tax rates for the three and nine-month period ended September 30, 2011 to 29.7% and 31.7%, respectively.

During the three and nine-month periods ended September 30, 2010, we recognized a decrease to income tax expense of $0.1 million related to the filing of our 2009 Federal income tax return which decreased our effective tax rates for the three and nine-month periods ended September 30, 2010 to 36%.

8. INTANGIBLE ASSETS

A schedule of intangible assets is as follows:

September 30, 2011 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$ 27,243,578	$ -	$ 27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,460,790	2,099,101	361,689
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	$ 33,604,368	$ 3,099,101	$ 30,505,267

December 31, 2010	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$ 27,243,578	$ -	$ 27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,414,692	2,062,785	351,907
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	$ 33,558,270	$ 3,062,785	$ 30,495,485

September 30, 2010 (unaudited)	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks:			
Wholesale	$ 27,243,578	$ -	$ 27,243,578
Retail	2,900,000	-	2,900,000
Patents	2,412,117	2,050,910	361,207
Customer relationships	1,000,000	1,000,000	-
Total Identified Intangibles	$ 33,555,695	$ 3,050,910	$ 30,504,785

Amortization expense for intangible assets was $12,041 and $11,827 for the three months ended September 30, 2011 and 2010, respectively and $36,316 and $35,243 for the nine months ended September 30, 2011 and 2010, respectively. The weighted average amortization period for patents is 15 years.

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

2012	$49,253
2013	49,253
2014	49,253
2015	49,253
2016	49,253

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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 June 30, 2011, we were authorized to issue approximately 347,823 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, 2011 through September 30, 2011:

	Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2011	232,000	$ 19.95
Issued	-	-
Exercised	(51,000)	$ 7.28
Forfeited	(46,000)	$ 27.69
Options outstanding at September 30, 2011	135,000	$ 22.10
Options exercisable at:		
January 1, 2011	232,000	$ 19.95
September 30, 2011	135,000	$ 22.10
Unvested options at September 30, 2011	-	

During the nine-month period ended September 30, 2011, we issued 12,208 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.

10. RETIREMENT PLANS

We sponsor 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.

We recently made a decision to fully fund and terminate the pension plan. We expect the transaction to be completed by the end of 2011. As a result, we expect to contribute approximately $4.2 million into the plan and record a pension termination expense of approximately $3.2 million net of tax in the fourth quarter of 2011. The ultimate pension expense and contribution is dependent on the fair value of plan assets at settlement.

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

	(Unaudited) Three Months Ended September 30, 2011	2010	(Unaudited) Nine Months Ended September 30, 2011	2010
Service cost	$ 30,840	$ 19,977	$ 92,520	$ 59,931
Interest	156,331	161,677	468,991	485,031
Expected return on assets	(156,592)	(133,055)	(469,774)	(399,163)
Amortization of unrecognized net gain or loss	54,762	71,854	164,288	215,560
Amortization of unrecognized prior service cost	18,802	18,098	56,404	54,294
Net pension cost	$ 104,143	$ 138,551	$ 312,429	$ 415,653

Our unrecognized benefit obligations existing at the date of transition for the non-union plan are being amortized over 21 years. Actuarial assumptions used in the accounting for the plan were as follows:

	2011	2010
Discount rate	5.51 %	5.91 %
Average rate of increase in compensation levels	3.0 %	3.0 %
Expected long-term rate of return on plan assets	8.0 %	8.0 %

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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, websites 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,	
	2011	2010	2011	2010
NET SALES:				
Wholesale	$ 60,229,521	$ 59,396,157	$ 140,822,568	$ 135,805,817
Retail	10,342,743	11,112,373	32,968,169	35,044,935
Military	448,282	4,251,714	1,818,716	15,211,532
Total Net Sales	$ 71,020,546	$ 74,760,244	$ 175,609,453	$ 186,062,284
GROSS MARGIN:				
Wholesale	$ 20,656,965	$ 21,425,840	$ 49,450,898	$ 47,083,808
Retail	4,873,532	5,102,592	15,783,415	15,875,230
Military	59,660	656,163	239,117	2,081,490
Total Gross Margin	$ 25,590,157	$ 27,184,595	$ 65,473,430	$ 65,040,528

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

12. LONG-TERM DEBT

In May 2010, we amended the terms of our revolving credit facility with GMAC Commercial Finance (“GMAC”) to advance $15 million to the Company under the existing revolving portion of its credit facility to prepay amounts due under term loans with Laminar Direct Capital L.P. and Whitebox Hedged High Yield Partners, L.P. After the prepayment, principal under the term loans totaled $11 million in the aggregate.

Also in May 2010, we completed a public offering of 1.8 million shares of common stock at a price of $8.40 per share. We received net proceeds from the offering of $14.1 million after deducting $0.9 million in underwriting discounts and $0.1 million in expenses. The proceeds were used to prepay amounts due under term loans with Laminar Direct Capital L.P. and Whitebox Hedged High Yield Partners, L.P.

In October 2010, we entered into a new financing agreement with PNC Bank (“PNC”) to provide a $70 million credit facility that replaced the existing revolving credit facility with GMAC. In addition, the new financing agreement with PNC was used to repay the remaining balance of approximately $11 million under the term loans. The term of the new credit facility is five years and the current interest rate is generally LIBOR plus 1.50%.

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%.

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, 2011, 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, 2011, we had $60.1 million in borrowings under this facility and total capacity of $70.0 million.

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 September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
Net Sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost Of Goods Sold	64.0	%	63.6	%	62.7	%	65.0	%
Gross Margin	36.0	%	36.4	%	37.3	%	35.0	%
Selling, General and Administrative Expenses	25.4	%	25.6	%	30.2	%	28.7	%
Income From Operations	10.6	%	10.8	%	7.1	%	6.3	%

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Net sales. Net sales for the three months ended September 30, 2011 were $71.0 million compared to $74.8 million for the same period in 2010. Wholesale sales for the three months ended September 30, 2011 were $60.2 million compared to $59.4 million for the same period in 2010. The $0.8 million increase in wholesale sales was the result of a $2.9 million or 46.9% increase in our duty footwear category, a $0.9 million or 11.3% increase in our western footwear category and a $0.6 million or 4.8% increase in our outdoor footwear category, which were partially offset by a $0.5 million or 2.4% decrease in our work footwear category (excluding Dickies), a $0.2 million or 2.7% decrease in apparel and accessories, a $0.9 million decrease in other and a $2.0 million decline of our Dickies licensed business. Our licensing agreement with Dickies expired on December 31, 2010. Retail sales for the three months ended September 30, 2011 were $10.3 million compared to $11.1 million for the same period in 2010. The $0.8 million decline in retail sales was a result of 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. Military segment sales for the three months ended September 30, 2011, were $0.4 million, compared to $4.3 million in the same period in 2010. 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 September 30, 2011 was $25.6 million, or 36.0% of net sales, compared to $27.2 million, or 36.4% of net sales, in the same period last year. Wholesale gross margin for the three months ended September 30, 2011 was $20.7 million, or 34.3% of net sales, compared to $21.4 million, or 36.1% of net sales, in the same period last year. The 180 basis point decrease was primarily the result of higher product costs. Retail gross margin for the three months ended September 30, 2011 was $4.9 million, or 47.1% of net sales, compared to $5.1 million, or 45.9% of net sales, for the same period in 2010. The 120 basis point increase was primarily the result of higher average selling prices. Military gross margin for the three months ended September 30, 2011 was $0.1 million, or 13.3% of net sales, compared to $0.7 million, or 15.4% of net sales, for the same period in 2010.

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SG&A expenses. SG&A expenses were $18.0 million, or 25.4% of net sales, for the three months ended September 30, 2011, compared to $19.2 million, or 25.6% of net sales for the same period in 2010. The net change primarily reflects decreases in compensation of $0.6 million and travel expenses of $0.2 million.

Interest expense. Interest expense was $0.3 million in the three months ended September 30, 2011, compared to $1.0 million for the same period in the prior year. The decrease is primarily the result of lower interest rates on our borrowings from our line of credit, which generally carries an interest rate of LIBOR plus 150 basis points.

Income taxes. Income tax expense for the three months ended September 30, 2011 was $2.2 million, compared to an income tax expense of $2.6 million for the same period a year ago. We have provided for income taxes at an estimated effective tax rate of 32.6% in 2011 and 37.6% in 2010. The decrease in the estimated effective tax rate for 2011 is the result of our permanent capital investment in 2011 in our operations in the Dominican Republic, which reduced the amount of dividends that we need to provide for U.S. income taxes. During the three months ended September 30, 2011, we recognized a decrease to income tax expense of $0.1 million related to the filing of our 2010 Federal income tax return which reduced our reported effective tax rate from 31.2% to 29.7%. During the three months ended September 30, 2010, we recognized a decrease to income tax expense of $0.1 million related to the filing of our 2009 Federal income tax return which reduced our reduced our reported effective tax rate from 37.6% to 36%.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Net sales. Net sales for the nine months ended September 30, 2011 were $175.6 million compared to $186.1 million for the same period in 2010. Wholesale sales for the nine months ended September 30, 2011 were $140.8 million compared to $135.8 million for the same period in 2010. The $5.0 million increase in wholesale sales was the result of a $8.4 million or 52.9% increase in our duty footwear category, a $1.1 million or 5.7% increase in our outdoor footwear category, a $0.7 million or 8.6% increase in sales of apparel and accessories, a $0.7 million or 3.0% increase in our western footwear category and $0.3 million or 0.5% increase in our work footwear category (excluding Dickies), which were partially offset by a $5.5 million decline of our Dickies licensed business and a $0.7 million decrease in other. Our licensing agreement with Dickies expired on December 31, 2010. Retail sales for the nine months ended September 30, 2011 were $33.0 million compared to $35.0 million for the same period in 2010. The $2.0 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. Military segment sales for the nine months ended September 30, 2011, were $1.8 million, compared to $15.2 million in the same period in 2010. 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 nine months ended September 30, 2011 was $65.5 million, or 37.3% of net sales, compared to $65.0 million, or 35.0% of net sales, in the same period last year. Wholesale gross margin for the nine months ended September 30, 2011 was $49.5 million, or 35.1% of net sales, compared to $47.1 million, or 34.7% of net sales, in the same period last year. The 40 basis point increase was primarily the result of higher average selling prices which was partially offset by higher product costs. Retail gross margin for the nine months ended September 30, 2011 was $15.8 million, or 47.9% of net sales, compared to $15.9 million, or 45.3% of net sales, for the same period in 2010. The 260 basis point increase was primarily the result of higher average selling prices. Military gross margin for the nine months ended September 30, 2011 was $0.2 million, or 13.1% of net sales, compared $2.1 million, or 13.7% of net sales, for the same period in 2010.

SG&A expenses. SG&A expenses were $53.1 million, or 30.2% of net sales, for the nine months ended September 30, 2011, compared to $53.3 million, or 28.7% of net sales for the same period in 2010. The net change primarily reflects decreases in compensation costs of $0.6 million, professional fees of $0.3 million, travel expenses of $0.3 million and bad debt expense of $0.2 million, which were partially offset by increases in advertising expenses of $0.6 million, benefit costs of $0.4 million and freight expenses of $0.3 million.

Interest expense. Interest expense was $0.8 million in the nine months ended September 30, 2011, compared to $4.7 million for the same period in the prior year, which included one-time fees of approximately $0.9 million associated with the early repayment of a portion of our senior term note. The remaining decrease is primarily the result of the repayment of a $40.0 million term note carrying interest at a rate of 11.5%. This repayment was made with $14 million of proceeds from our May 2010 equity offering as well as $26 million of borrowings from our line of credit which generally carries an interest rate of LIBOR plus 150 basis points. The interest expense for the nine months ended September 30, 2011 included $0.1 million of prepayment penalties and other fees from early repayment of our mortgage loans in April 2011.

Income taxes. Income tax expense for the nine months ended September 30, 2011 was $3.7 million, compared to an income tax expense of $2.6 million for the same period a year ago. We provided for income taxes at an estimated effective tax rate of 32.6% in 2011 and 37.6% in 2010. The decrease in the estimated effective tax rate for 2011 is the result of our permanent capital investment in 2011 in our operations in the Dominican Republic, which reduced the amount of dividends that we need to provide for U.S. income taxes. During the nine-month period ended September 30, 2011, we recognized a decrease to income tax expense of $0.1 million related to the filing of our 2010 Federal income tax return which decreased our effective tax rates for the nine-month period ended September 30, 2011 to 31.7%. During the nine-month period ended September 30, 2010, we recognized a decrease to income tax expense of $0.1 million related to the filing of our 2009 Federal income tax return which decreased our effective tax rate for the nine-month period ended September 30, 2010 to 36%.

Defined Benefit Pension Plan Termination

The Company recently made a decision to fully fund and terminate its defined benefit pension plan. We expect the transaction to be completed by the end of 2011. As a result, we expect to contribute approximately $4.2 million into the plan and record a pension termination expense of approximately $3.2 million net of tax in the fourth quarter of 2011. The ultimate pension expense and contribution is dependent on the fair value of plan assets at settlement.

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 $6.0 million for the first nine months of 2011, compared to $3.7 million for the same period in 2010. Total capital expenditures for 2011 are anticipated to be approximately $7.0 million.

In May 2010, we amended the terms of our revolving credit facility with GMAC Commercial Finance ("GMAC") to advance $15 million to the Company under the existing revolving portion of its credit facility to prepay amounts due under term loans with Laminar Direct Capital L.P. and Whitebox Hedged High Yield Partners, L.P. After the prepayment, principal under the term loans total $11 million in the aggregate.

Also in May 2010, we completed a public offering of 1.8 million shares of common stock at a price of $8.40 per share. We received net proceeds from the offering of $14.1 million after deducting $0.9 million in underwriting discounts and $0.1 million in expenses. The proceeds were used to prepay amounts due under term loans with Laminar Direct Capital L.P. and Whitebox Hedged High Yield Partners, L.P.

In October 2010, we entered into a new financing agreement with PNC Bank ("PNC") to provide a $70 million credit facility that replaced the existing revolving credit facility with GMAC. In addition, the new financing agreement with PNC was used to repay the remaining balance of approximately $11 million under the term loans. The term of the new credit facility is five years and the current interest rate is generally LIBOR plus 1.50%.

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%.

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, 2011, 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, 2011, we had $60.1 million in borrowings under this facility and total capacity of $70.0 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 in operating activities totaled $20.3 million for the nine months ended September 30, 2011, compared to $6.0 million in the same period of 2010. Cash used in operating activities for the nine months ended September 30, 2011 and 2010 were primarily impacted by seasonally higher inventory and accounts receivable levels, which were partially offset by increases in accounts payable.

Investing Activities. Cash used in investing activities was $6.0 million for the nine months ended September 30, 2011, compared to $3.7 million in the same period of 2010. Cash used in investing activities reflects an investment in property, plant and equipment of $6.0 million in 2011 and $3.7 million in 2010. Our 2011 and 2010 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, 2011 was $25.3 million and reflects a net increase in the borrowing under the revolving credit facility of $27.0 million, partially offset by repayments on long-term debt of $2.0 million. Cash used in financing activities for the nine months ended September 30, 2010 was $11.9 million and reflects $14.1 million of proceeds from the aforementioned issuance of common stock, an increase in net borrowings under the revolving credit facility of $27.2 million and repayments on long-term debt of $29.4 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, 2010.

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, pension benefits 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 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.

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Pension benefits

Accounting for pensions involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical costs and discount rates. These assumptions are reviewed annually.

Pension expenses are determined by actuaries using assumptions concerning the discount rate, expected return on plan assets and rate of compensation increase. An actuarial analysis of benefit obligations and plan assets is determined as of December 31 each year.

The funded status of our plans and reconciliation of accrued pension cost is determined annually as of December 31. Further discussion of our pension plan and related assumptions is included in Note 10 “Retirement Plans,” to the unaudited condensed consolidated financial statements for the quarterly period ended September 30, 2011. Actual results would be different using other assumptions. Management records an accrual for pension costs associated with our sponsored non-contributory defined benefit pension plan covering our non-union workers. Future adverse changes in market conditions or poor operating results of underlying plan assets could result in losses or a higher accrual. At December 31, 2005, we froze the non-contributory defined benefit pension plan for all non-U.S. territorial employees. We recently made a decision to fully fund and terminate the pension plan before the end of 2011.

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,” “es “predict,” “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, 2010, 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, 2010.

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, 2011, 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, 2010.

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

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - RESERVED

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, 2011 formatted in XBRL (“eXtensible Business Reporting Language”): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements tagged as blocks of text.

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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: October 28, 2011	/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.