

ROCKY BRANDS, INC.

Form 10-Q

November 04, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

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: 0-21026

ROCKY BRANDS, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or Other Jurisdiction of
Incorporation or Organization)

31-1364046

(I.R.S. Employer
Identification No.)

39 E. Canal Street, Nelsonville, Ohio 45764

(Address of Principal Executive Offices, Including Zip Code)

(740) 753-1951

(Registrant's Telephone Number, Including Area Code)

Not Applicable

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

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

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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of October 29, 2008, 5,508,398 shares of Rocky Brands, Inc. common stock, no par value, were outstanding.

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ROCKY BRANDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008	December 31, 2007	September 30, 2007
	(Unaudited)	2007	(Unaudited)
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 4,332,477	\$ 6,537,884	\$ 2,707,273
Trade receivables net	72,654,591	65,931,092	81,279,819
Other receivables	1,289,396	674,707	1,064,827
Inventories	83,320,590	75,403,664	85,081,978
Deferred income taxes	1,978,946	1,952,536	3,902,775
Income tax receivable		719,945	2,743,633
Prepaid expenses	2,780,959	2,226,920	1,494,045
Total current assets	166,356,959	153,446,748	178,274,350
FIXED ASSETS net	24,254,455	24,484,050	25,233,363
DEFERRED PENSION ASSET			53,866
IDENTIFIED INTANGIBLES	36,044,132	36,509,690	36,673,954
GOODWILL			24,874,368
OTHER ASSETS	1,740,079	2,284,039	2,618,442
TOTAL ASSETS	\$ 228,395,625	\$ 216,724,527	\$ 267,728,343
LIABILITIES AND SHAREHOLDERS			
EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	\$ 14,492,182	\$ 11,908,902	\$ 15,514,243
Current maturities long term debt	464,846	324,648	318,024
Accrued expenses:			
Salaries and wages	1,043,421	751,134	605,905
Co-op advertising	673,703	840,818	446,410
Interest	1,870,687	487,446	1,822,664
Income tax payable	96,666		
Taxes other	612,445	516,038	571,718
Commissions	463,735	717,564	771,062
Other	2,928,714	2,624,121	2,504,345
Total current liabilities	22,646,399	18,170,671	22,554,371
LONG TERM DEBT less current maturities	107,115,967	103,220,384	122,438,442
DEFERRED INCOME TAXES	12,569,600	13,247,953	17,009,025
DEFERRED PENSION LIABILITY	967,930	125,724	
DEFERRED LIABILITIES	202,096	235,204	335,534

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TOTAL LIABILITIES	143,501,992	134,999,936	162,337,372
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, no par value; 25,000,000 shares authorized; issued and outstanding September 30, 2008 - 5,508,398; December 31, 2007 - 5,488,293; September 30, 2007 - 5,488,293	54,193,211	53,997,960	53,897,100
Accumulated other comprehensive loss	(1,462,344)	(1,051,232)	(916,463)
Retained earnings	32,162,766	28,777,863	52,410,334
Total shareholders' equity	84,893,633	81,724,591	105,390,971
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 228,395,625	\$ 216,724,527	\$ 267,728,343

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,	
	2008	2007	2008	2007
NET SALES	\$ 72,500,603	\$ 82,308,547	\$ 193,492,740	\$ 202,763,235
COST OF GOODS SOLD	45,414,533	53,030,023	116,060,912	123,477,571
GROSS MARGIN	27,086,070	29,278,524	77,431,828	79,285,664
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	21,961,032	25,108,505	65,897,978	70,222,025
INCOME FROM OPERATIONS	5,125,038	4,170,019	11,533,850	9,063,639
OTHER INCOME AND (EXPENSES):				
Interest expense, net	(2,285,051)	(2,943,139)	(7,101,237)	(8,786,060)
Other net	34,254	131,365	31,385	95,364
Total other net	(2,250,797)	(2,811,774)	(7,069,852)	(8,690,696)
INCOME BEFORE INCOME TAXES	2,874,241	1,358,245	4,463,998	372,943
INCOME TAX EXPENSE (BENEFIT)	500,000	209,000	1,056,000	(155,000)
NET INCOME	\$ 2,374,241	\$ 1,149,245	\$ 3,407,998	\$ 527,943
NET INCOME PER SHARE				
Basic	\$ 0.43	\$ 0.21	\$ 0.62	\$ 0.10
Diluted	\$ 0.43	\$ 0.21	\$ 0.62	\$ 0.09
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	5,508,278	5,484,923	5,508,132	5,472,233
Diluted	5,512,514	5,594,707	5,518,018	5,590,879

See notes to the interim unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,407,998	\$ 527,943
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,712,408	4,226,093
Deferred compensation and other	78,766	3,371
Deferred income taxes	(408,638)	
Deferred debt financing costs		811,582
(Gain) loss on disposal of fixed assets	(35,739)	29,070
Stock compensation expense	195,251	285,984
Change in assets and liabilities		
Receivables	(7,338,188)	(15,925,622)
Inventories	(7,916,926)	(7,133,002)
Other current assets	165,906	976,434
Other assets	543,960	795,282
Accounts payable	2,136,570	5,591,785
Accrued and other liabilities	1,752,250	2,525,818
 Net cash used in operating activities	 (2,706,382)	 (7,285,262)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(3,561,205)	(4,957,897)
Investment in trademarks and patents	(33,938)	(66,488)
Proceeds from sale of fixed assets	60,336	77,037
 Net cash used in investing activities	 (3,534,807)	 (4,947,348)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	192,663,254	206,281,446
Repayments of revolving credit facility	(188,714,331)	(201,297,047)
Proceeds from long-term debt	355,398	40,000,000
Repayments of long-term debt	(268,539)	(32,719,514)
Debt financing costs		(1,428,530)
Proceeds from exercise of stock options		372,275
 Net cash provided by financing activities	 4,035,782	 11,208,630

DECREASE IN CASH AND CASH EQUIVALENTS	(2,205,407)	(1,023,980)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,537,884	3,731,253
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,332,477	\$ 2,707,273

See notes to the interim unaudited condensed consolidated financial statements.

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AND SUBSIDIARIES****NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2008 AND 2007****1. INTERIM FINANCIAL REPORTING**

In the opinion of management, the accompanying interim unaudited condensed consolidated financial statements reflect all adjustments that are necessary for a fair presentation of the financial results. All such adjustments reflected in the unaudited interim consolidated financial statements are considered to be of a normal and recurring nature. The results of the operations for the three-month and nine-month periods ended September 30, 2008 and 2007 are not necessarily indicative of the results to be expected for the whole year. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

The components of total comprehensive income are shown below:

	(Unaudited)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net income	\$ 2,734,241	\$ 1,149,245	\$ 3,407,998	\$ 527,943
Other comprehensive income:				
Amortization of unrecognized transition obligation, service cost and net loss	37,852	25,573	115,737	76,719
Total comprehensive income	\$ 2,772,093	\$ 1,174,818	\$ 3,523,735	\$ 604,662

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Inventories are comprised of the following:

	September 30, 2008 (Unaudited)	December 31, 2007	September 30, 2007 (Unaudited)
Raw materials	\$ 8,898,262	\$ 6,086,118	\$ 8,222,483
Work-in-process	671,586	144,171	261,295
Finished goods	73,816,742	69,301,375	76,798,200
Reserve for obsolescence or lower of cost or market	(66,000)	(128,000)	(200,000)
Total	\$ 83,320,590	\$ 75,403,664	\$ 85,081,978

3. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine Months Ended September 30,	
	2008	2007
Interest	\$ 5,249,383	\$ 5,970,000
Federal, state and local income taxes	\$ 647,200	\$ (991,000)
Fixed asset purchases in accounts payable	\$ 502,874	\$ 132,350

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

A reconciliation of the shares used in the basic and diluted income per common share computation for the three-month and nine-month periods ended September 30, 2008 and 2007 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Weighted average shares outstanding	5,508,278	5,484,923	5,508,132	5,472,233
Dilutive stock options	4,236	109,784	9,886	118,646
Dilutive weighted average shares outstanding	5,512,514	5,594,707	5,518,018	5,590,879
Anti-dilutive weighted average shares outstanding	409,249	270,707	338,749	270,707

5. RECENT FINANCIAL ACCOUNTING STANDARDS

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

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

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

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

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

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB No. 133 (SFAS 161). SFAS 161 intends to

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improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS 161 also requires disclosure about an entity's strategy and objectives for using derivatives, the fair values of derivative instruments and their related gains and losses. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently evaluating the impact of adopting SFAS 161 and do not anticipate that its adoption will have a material impact on our consolidated financial statements.

6. INCOME TAXES

We file income tax returns in the U.S. Federal jurisdiction and various state and foreign jurisdictions. An examination of our 2004 Federal income tax return resulted in an immaterial adjustment. The examination of the 2003 Federal income tax return resulted in no changes. We are no longer subject to U.S. Federal tax examinations for years before 2004. State jurisdictions that remain subject to examination range from 2003 to 2007. Foreign jurisdiction tax returns that remain subject to examination range from 2003 to 2007 for Canada and from 2004 to 2007 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 the date of adoption of FIN 48, accrued interest or penalties were not material, and no such expenses were recognized during the quarter.

We provided for income taxes at estimated effective tax rates of 36% and 37% for the three-month and nine-month periods ended September 30, 2008 and 2007, respectively. During the three months ended September 30, 2008, we recognized an adjustment to income tax expense related to the filing of the 2007 Federal income tax return of \$0.6 million which reduced our effective tax rates for the three and nine month periods ended September 30, 2008 to 17.4% and 23.7%, respectively. During the three months ended September 30, 2007, we recognized a prior year state income tax refund of \$0.3 million which reduced the effective tax rate for the three-month period ended September 30 2007 to 15.4%. The tax benefit for the nine-month period ended September 30, 2007 results from the recognition of the aforementioned tax refund when combined with our provision for income taxes at the effective tax rate of 37%.

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A schedule of intangible assets is as follows:

	Gross Amount	Accumulated Amortization	Carrying Amount
September 30, 2008 (unaudited)			
Trademarks:			
Wholesale	\$ 28,278,595	\$ 150,940	\$ 28,127,655
Retail	6,900,000		6,900,000
Patents	2,303,989	1,537,513	766,476
Customer relationships	1,000,000	750,000	250,000
Total Identified Intangibles	\$ 38,482,584	\$ 2,438,453	\$ 36,044,131

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

	Gross Amount	Accumulated Amortization	Carrying Amount
September 30, 2007 (unaudited)			
Trademarks:			
Wholesale	\$ 28,272,514	\$ 64,689	\$ 28,207,825
Retail	6,900,000		6,900,000
Patents	2,274,325	1,158,196	1,116,129
Customer relationships	1,000,000	550,000	450,000
Total Identified Intangibles	\$ 38,446,839	\$ 1,772,885	\$ 36,673,954

Amortization expense for intangible assets was \$166,629 and \$166,108 for the three months ended September 30, 2008 and 2007, respectively and \$499,496 and \$497,825 for the nine months ended September 30, 2008 and 2007, respectively. The weighted average amortization period for patents is six years and for customer relationships is five years.

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

2009	\$666,513
2010	126,430
2011	125,050
2012	125,050
2013	125,050

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On May 11, 2004, our shareholders approved the 2004 Stock Incentive Plan. The Plan includes 750,000 of our common shares that may be granted for stock options and restricted stock awards. As of September 30, 2008, we were authorized to issue approximately 406,420 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, 2008 through September 30, 2008:

	Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2008	472,551	\$15.37
Issued		
Exercised		
Forfeited	(23,250)	\$12.15
Options outstanding at September 30, 2008	449,301	\$15.53
Options exercisable at:		
January 1, 2008	420,801	\$14.97
September 30, 2008	424,363	\$15.43
Unvested options at January 1, 2008	51,750	\$18.55
Granted		
Vested	(26,813)	\$19.74
Forfeited		
Unvested options at September 30, 2008	24,937	\$17.27

During the nine-month period ended September 30, 2008, we issued 19,985 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.

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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.

SFAS 158 requires a fiscal year end measurement of plan assets and benefit obligations, eliminating the use of earlier measurement dates previously permissible. The new measurement date requirement is effective for fiscal years ending after December 15, 2008. As a result, we have changed our measurement date to December 31 and recognized the pension expense related to the period October 1, 2007 through December 31, 2007 as an adjustment to beginning retained earnings and accumulated other comprehensive loss.

As a result of the change in measurement date, we recognized the increase in the under-funded status of the defined benefit pension plan between September 30, 2007 and December 31, 2007 of \$846,071, as well as the corresponding increase in accumulated other comprehensive loss of \$526,850 and related decrease in our deferred tax liability of \$296,125. The increase in accumulated other comprehensive loss of \$526,850 has been recognized as an adjustment to the opening balance of accumulated other comprehensive loss as of January 1, 2008. We also recognized the net pension expense of \$23,096 relating to the period October 1, 2007 through December 31, 2007 as a reduction of the opening balance of retained earnings as of January 1, 2008.

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

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Service cost	\$ 26,962	\$ 26,298	\$ 80,888	\$ 78,895
Interest	143,062	139,507	429,185	418,520
Expected return on assets	(171,312)	(179,239)	(513,938)	(537,717)
Amortization of unrecognized net gain or loss	17,115		51,557	
Amortization of unrecognized transition obligation	897	2,691	3,139	8,073
Amortization of unrecognized prior service cost	19,840	22,882	61,041	68,646
Net pension cost	\$ 36,564	\$ 12,139	\$ 111,872	\$ 36,417

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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:

	2008	2007
Discount rate	6.00%	6.00%
Average rate of increase in compensation levels	3.0%	3.0%
Expected long-term rate of return on plan assets	8.0%	8.0%

Our desired investment result is a long-term rate of return on assets that is at least 8%. The target rate of return for the plan has been based upon the assumption that returns will approximate the long-term rates of return experienced for each asset class in our investment policy. Our investment guidelines are based upon an investment horizon of greater than five years, so that interim fluctuations should be viewed with appropriate perspective. Similarly, the plan's strategic asset allocation is based on this long-term perspective.

10. SEGMENT INFORMATION

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

	(Unaudited)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
NET SALES:				
Wholesale	\$ 55,644,255	\$ 64,106,769	\$ 137,862,115	\$ 150,574,407
Retail	15,301,188	18,201,778	50,423,468	51,751,898
Military	1,555,160		5,207,157	436,930
Total Net Sales	\$ 72,500,603	\$ 82,308,547	\$ 193,492,740	\$ 202,763,235
GROSS MARGIN:				
Wholesale	\$ 19,686,172	\$ 20,036,008	\$ 51,645,615	\$ 51,316,794
Retail	7,272,130	9,242,516	25,319,276	26,663,477
Military	127,768		466,937	1,305,393*
Total Gross Margin	\$ 27,086,070	\$ 29,278,524	\$ 77,431,828	\$ 79,285,664

* The gross margin for the nine-month period ended September 30, 2007 included

reductions of
cost of goods
sold from the
reimbursement
of contract
related expenses
incurred in prior
periods of
\$1.2 million.

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

11. LONG-TERM DEBT

In May 2007, we entered into a Note Purchase Agreement, totaling \$40 million, with Laminar Direct Capital L.P., Whitebox Hedged High Yield Partners, L.P. and GPC LIX L.L.C., and issued notes to each for \$20 million, \$17.5 million and \$2.5 million, respectively, at an interest rate of 11.5% payable semi-annually over the five year term of the notes. Principal repayment is due at maturity in May 2012. The proceeds from these notes were used to pay down the GMAC Commercial Finance (GMAC) term loans which totaled approximately \$17.5 million and the \$15 million American Capital Strategies, LTD (ACAS) term loan. The balance of the proceeds, net of debt acquisition costs of approximately \$1.4 million, was used to reduce the outstanding balance on the revolving credit facility. The Note Purchase Agreement is secured by a security interest in our assets and is subordinate to the security interest under the GMAC line of credit.

Our credit facilities contain certain restrictive covenants, which require us to maintain a minimum fixed charge coverage ratio and limit the annual amount of capital expenditures. As of September 30, 2008, we were in compliance with these restrictive covenants.

Table of Contents**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,	
	2008	2007	2008	2007
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost Of Goods Sold	62.6%	64.4%	60.0%	60.9%
Gross Margin	37.4%	35.6%	40.0%	39.1%
Selling, General and Administrative Expenses	30.3%	30.5%	34.0%	34.6%
Income From Operations	7.1%	5.1%	6.0%	4.5%

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Net sales. Net sales for the three months ended September 30, 2008 were \$72.5 million compared to \$82.3 million for the same period in 2007. Wholesale sales for the three months ended September 30, 2008 were \$55.6 million compared to \$64.1 million for the same period in 2007. The \$8.5 million decrease is primarily attributable to supply chain disruptions combined with difficult economic conditions which resulted in a decrease in sales across all footwear and apparel categories with the exception of a small increase in the sales of duty footwear. Retail sales for the three months ended September 30, 2008 were \$15.3 million compared to \$18.2 million for the same period in 2007. The \$2.9 million decrease is primarily the result of customers' decisions to close plants, reduce headcount, and defer safety shoe purchases due to current economic conditions. Military segment sales for the three months ended September 30, 2008, were \$1.6 million, compared to zero in the same period in 2007. Shipments in 2008 were under the \$6.4 million contract issued in July 2007 and the \$5.0 million contract issued in January 2008.

Gross margin. Gross margin for the three months ended September 30, 2008 was \$27.1 million, or 37.4% of net sales, compared to \$29.3 million, or 35.6% of net sales, for the same period in 2007. Wholesale gross margin for the three months ended September 30, 2008 was \$19.7 million, or 35.4% of net sales, compared to \$20.0 million, or 31.3% of net sales, in the same period last year. The 410 basis point increase reflects an increase in sales price per unit, as well as a decrease in manufacturing costs resulting from increased operating efficiencies from increased production at our manufacturing facilities. Retail gross margin for the three months ended September 30, 2008 was \$7.3 million, or 47.5% of net sales, compared to \$9.2 million, or 50.8% of net sales, for the same period in 2007. The 330 basis point decrease is primarily the result of increased costs to purchase products. Military gross margin for the three months ended September 30, 2008 was \$0.1 million, or 8.2% of net sales, compared to zero for the same period in 2007.

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SG&A expenses. SG&A expenses were \$22.0 million, or 30.3% of net sales, for the three months ended September 30, 2008, compared to \$25.1 million, or 30.5% of net sales for the same period in 2007. The \$3.1 million reduction is primarily the result of decreases in salaries and commissions of \$1.2 million, shipping and freight expenses of \$1.2 million, professional and consulting fees of \$0.3 million, show expenses of \$0.3 million, and advertising expenses of \$0.3 million.

Interest expense. Interest expense was \$2.3 million in the three months ended September 30, 2008, compared to \$2.9 million for the same period in the prior year. The decrease in interest expense was primarily due to reductions in the amount of outstanding debt combined with lower interest rates compared to the same period last year.

Income taxes. Income tax expense for the three months ended September 30, 2008 was \$0.5 million, compared to \$0.2 million for the same period a year ago. We provided for income taxes at effective tax rates of 36%, our anticipated rate for 2008, and 37% for the three months ended September 30, 2008 and 2007, respectively. During the three-month period ended September 30, 2008, we recognized an adjustment to income tax expense related to the filing of the 2007 Federal income tax return of \$0.6 million which reduced our effective tax rate for the three-month period ended September 30, 2008 to 17.4%. During the three months ended September 30, 2007, we recognized a prior year state income tax refund of \$0.3 million which reduced the effective tax rate to 15.4%.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Net sales. Net sales for the nine months ended September 30, 2008 were \$193.5 million compared to \$202.8 million for the same period in 2007. Wholesale sales for the nine months ended September 30, 2008 were \$137.9 million compared to \$150.6 million for the same period in 2007. The \$12.7 million decrease is primarily attributable to supply chain disruptions combined with difficult economic conditions which resulted in a decrease in sales across all footwear and apparel categories with the exception of a small increase in the sales of duty footwear. Retail sales for the nine months ended September 30, 2008 were \$50.4 million compared to \$51.8 million for the same period in 2007. Retail sales were negatively impacted by customer decisions to close plants, reduce headcount, and defer safety shoe purchases as the result of a challenging economy. Military segment sales for the nine months ended September 30, 2008, were \$5.2 million, compared to \$0.4 million in the same period in 2007. Shipments in 2008 were under the \$6.4 million contract issued in July 2007 and the \$5.0 million contract issued in January 2008.

Gross margin. Gross margin for the nine months ended September 30, 2008 was \$77.4 million, or 40.0% of net sales, compared to \$79.3 million, or 39.1% of net sales, for the same period in 2007. Wholesale gross margin for the nine months ended September 30, 2008 was \$51.6 million, or 37.5% of net sales, compared to \$51.3 million, or 34.1% of net sales, in the same period last year. The 340 basis point increase reflects an increase in sales price per unit, as well as a decrease in manufacturing costs resulting from increased operating efficiencies from increased production at our manufacturing facilities. Retail gross margin for the nine months ended September 30, 2008 was \$25.3 million, or 50.2% of net sales, compared to \$26.7 million, or 51.5% of net sales, for the same period in 2007. The 130 basis point decrease is primarily the result of increased costs to purchase products. Military gross margin for the nine months ended September 30, 2008 was \$0.5 million, or 9.0% of net sales, compared to \$1.3 million for the same period in 2007. The prior year's results included a \$1.2 million reimbursement of contract related expenses incurred in prior periods.

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SG&A expenses. SG&A expenses were \$65.9 million, or 34.0% of net sales, for the nine months ended September 30, 2008, compared to \$70.2 million, or 34.6% of net sales for the same period in 2007. The \$4.3 million reduction is the result of decreases in shipping and freight expenses of \$2.3 million, salaries and commissions of \$2.2 million, professional and consulting fees of \$1.1 million and, offset by increases in expenses related to service agreements for computer hardware and software of \$0.5 million and vehicle fuel and repairs of \$0.5 million compared to the same period last year.

Interest expense. Interest expense was \$7.1 million for the nine months ended September 30, 2008, compared to \$8.8 million for the same period in the prior year. The decrease in interest expense was primarily due to reductions in the amount of outstanding debt combined with lower interest rates; and the write off of prepaid financing costs of \$0.8 million related to the refinancing of our term loans in the second quarter of 2007.

Income taxes. Income tax expense for the nine months ended September 30, 2008 was \$1.1 million, compared to a benefit of \$0.2 million for the same period a year ago. We provided for income taxes at effective tax rates of 36%, our anticipated tax rate for 2008, and 37% for the nine months ended September 30, 2008 and 2007, respectively. During the nine-month period ended September 30, 2008, we recognized an adjustment to income tax expense related to the filing of the 2007 Federal income tax return of \$0.6 million which reduced our effective tax rate for the nine-month period ended September 30, 2008 to 23.7%. During the nine-month period ended September 30, 2007, we recognized a prior year state income tax refund of \$0.3 million which when combined with the income tax provision of 37% resulted in the recognition of the aforementioned tax benefit.

Liquidity and Capital Resources

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

Over the last several years our principal uses of cash have been for our acquisitions of EJ Footwear and certain assets of Gates-Mills, as well as 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 \$4.0 million for the first nine months of 2008, compared to \$4.7 million for the same period in 2007. Capital expenditures for all of 2008 are anticipated to be approximately \$5.0 million.

In May 2007, we entered into a Note Purchase Agreement, totaling \$40 million, with Laminar Direct Capital L.P., Whitebox Hedged High Yield Partners, L.P. and GPC LIX L.L.C., and issued notes to them for \$20 million, \$17.5 million and \$2.5 million, respectively, at an interest rate of 11.5% payable semi-annually over the five year term of the notes. Principal repayment is due at maturity in May 2012. The proceeds from these notes were used to pay down the GMAC Commercial Finance term loans which totaled approximately \$17.5 million and the \$15 million ACAS term loan. The balance of the proceeds, net of debt acquisition costs of approximately \$1.4 million, was used to reduce the outstanding

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balance on the revolving credit facility. The Note Purchase Agreement is secured by a security interest in our assets and is subordinate to the security interest under the GMAC line of credit.

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, 2008, we had \$64.5 million in borrowings under this facility and total capacity of \$85.7 million. Our credit facilities contain certain restrictive covenants, which require us to maintain a minimum fixed charge coverage ratio and limit the annual amount of capital expenditures. As of September 30, 2008, we were in compliance with these restrictive covenants.

We believe that our existing credit facilities 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 facilities.

Operating Activities. Cash used in operating activities totaled \$2.7 million for the nine months ended September 30, 2008, compared to \$7.3 million in the same period of 2007. Cash provided by operating activities was primarily impacted by the seasonal buildup of both inventory and accounts receivable.

Investing Activities. Cash used in investing activities was \$3.5 million for the nine months ended September 30, 2008, compared to \$4.9 million in the same period of 2007. Cash used in investing activities in 2008 reflects an investment in property, plant and equipment of \$3.5 million. Our 2008 and 2007 expenditures primarily relate to investments in molds and equipment associated with our manufacturing operations, retail sales fleet and for information technology.

Financing Activities. Cash provided by financing activities for the nine months ended September 30, 2008 was \$4.0 million and reflects an increase in net borrowings under the revolving credit facility of \$3.9 million and information technology software financing of \$0.3 offset by repayments on long-term debt of \$0.2 million. Cash provided by financing activities for the nine months ended September 30, 2007 was \$11.2 million, reflecting an increase in net borrowings under the revolving credit facility of \$4.9 million, repayments on long-term debt of \$32.7 million, offset by proceeds from the exercise of stock options of \$0.4 million and the issuance of long term debt of \$40 million, less debt financing costs of \$1.4 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

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Report on Form 10-K for the year ended December 31, 2007.

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 doubtful 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. Management also records estimates for customer returns and discounts offered to customers. Should a greater proportion of customers return goods and take advantage of discounts than estimated by us, additional allowances may be required.

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

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Intangible assets, including goodwill, trademarks and patents are reviewed for impairment annually, and more frequently, if necessary. In performing the review of recoverability, we estimate future cash flows expected to result from the use of the asset and our eventual disposition. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's subjective judgments. The time periods for estimating future cash flows is often lengthy, which increases the sensitivity to assumptions made. Depending on the assumptions and estimates used, the estimated future cash flows projected in the evaluation of long-lived assets can vary within a wide range of outcomes. We consider the likelihood of possible outcomes in determining the best estimate of future cash flows. A significant assumption of estimated cash flows from trademarks is future sales of branded products. Other assumptions include discount rates, royalty rates, cost of capital, and market multiples. An impairment charge may be recorded if the expected future cash flows decline. Based upon our review, none of our intangibles were impaired as of September 30, 2008.

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 was determined as of September 30 each year. SFAS 158 requires a fiscal year end measurement of plan assets and benefit obligations, eliminating the use of earlier measurement dates currently permissible. The new measurement date requirement is effective for fiscal years ending after December 15, 2008. Effective January 1, 2008, we have changed our measurement date to December 31 and recognized the pension expense related to the period October 1, 2007 through December 31, 2007 as an adjustment to beginning retained earnings and accumulated other comprehensive loss.

As a result of the change in measurement date, we recognized the increase in the under-funded status of the defined benefit pension plan between September 30, 2007 and December 31, 2007 of \$846,071, as well as the corresponding increase in accumulated other comprehensive loss of \$526,850 and related decrease in our deferred tax liability of \$296,125. The increase in accumulated other comprehensive loss of \$526,850 has been recognized as an adjustment to the opening balance of accumulated other comprehensive loss as of January 1, 2008. We also recognized the net pension expense of \$23,096 relating to the period October 1, 2007 through December 31, 2007 as a reduction of the opening balance of retained earnings as of January 1, 2008.

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 9, Retirement Plans, to the unaudited condensed consolidated financial statements for the quarterly period ended June 30, 2008. Actual results would be different using other assumptions. Management records an accrual for pension costs associated with our sponsored noncontributory 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.

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Income taxes

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

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

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief, and expectations, such as statements concerning our future profitability and our operating and growth strategy. Words such as believe, anticipate, expect, will, may, should, intend, plan, estimate, potential, continue, likely and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risks and uncertainties including, without limitation, the factors set forth under the caption Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2007, 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.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since December 31, 2007.

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, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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, 2007.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

**EXHIBIT EXHIBIT
NUMBER DESCRIPTION**

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

* Filed with this report.

+ Furnished with this report.

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SIGNATURE

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

Rocky Brands, Inc.

Date: November 4, 2008

/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.