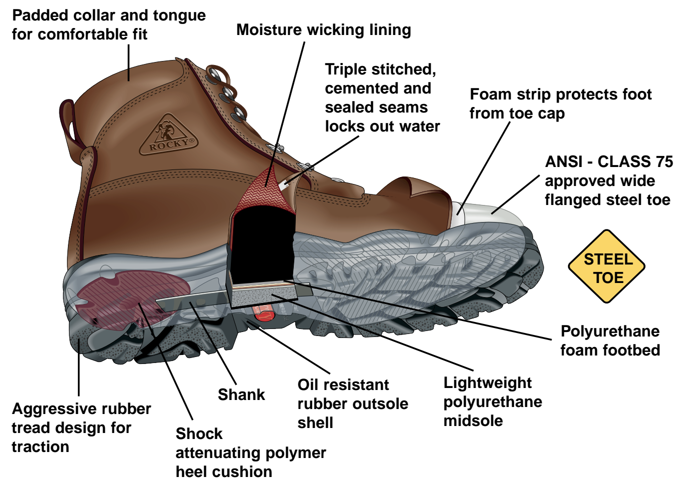
1999
Annual Report

Rocky Shoes & Boots, Inc. designs, develops, manufactures and markets premium quality rugged outdoor, duty and casual footwear. The Company's footwear is marketed through several distribution channels, primarily under the registered trademark ROCKY®.

ROCKY® is the leader in rugged outdoor footwear. The **GORE-TEX® 10" Realtree® Hardwoods™** illustration shown below underscores the Company's reputation for quality, innovation and comfort. It includes a dual-density BearClaw2 outsole with "claw" traction design, 1000 grams of Thinsulate™ and many other quality features.

Occupational footwear has been an important category of the ROCKY® brand for many years. Styles are offered to meet the diverse needs of persons regularly engaged in occupational, work, and duty activities. The ROCKY® **WorkSmart™** boot shown below is 25% lighter than traditional work boots due to its polyurethane midsole combined with a durable rubber outsole.



Moc Toe Chukka

Slip-on with Velcro® Strap

Plain Toe Oxford

Moc Toe Oxford

The growing line of ROCKY®'s casual footwear features shoes made with full-grain leather, polyurethane Traveler soles, and a Foot Support System (FSS) Footbed.

To Our Shareholders,

Two key issues-inventory and manufacturing-dominated our performance throughout 1999. Several actions were taken during the year to deal with frequent changes in consumer demand, extended periods of unseasonable weather conditions, and challenges operating from multiple warehouses. We also completed an inventory reduction program by year-end 1999 and recently announced plans to shift some of our manufacturing to our Caribbean facilities. As a result, we have positioned the Company to achieve significant improvement in performance in 2000 following a disappointing 1999.

The Company reported a net loss of $5,129,757, or $1.09 per diluted share, for 1999 compared with net income of $2,262,197, or $0.41 per diluted share, the prior year. The fourth quarter 1999 net loss was $7,213,654, or $1.59 per diluted share, versus a net loss of $1,132,302, or $0.21 per diluted share, in 1998.

Net sales rose 10.6% to $98,099,184 for 1999 from $88,699,413 a year ago. The decline in gross margin was attributable to manufacturing inefficiencies resulting from adjustments to production throughout most of 1999 and sales of inventory at lower margins during fourth quarter 1999. Selling, general and administrative expenses rose one full percentage point to 20.4% of net sales for 1999 principally due to costs associated with operating four warehouses temporarily prior to completion of the Company's finished goods distribution center at year-end 1999. In addition, higher costs were incurred for increased co-op advertising during the past year.

The most significant contributions to higher net sales in 1999 were from our occupational and rugged outdoor categories. They grew $6.0 million and $3.4 million, respectively, compared to 1998. Exciting progress is also being achieved in the historically low-growth occupational market due to the introduction of new styles and more focused sales efforts. Rugged outdoor remains our number one category and particularly benefited last year from sharply higher sales of rubber products. We are very pleased with this progress and new designs for 2000 are expected to further strengthen our growth potential.

We began this past year with $47.1 million of inventory, which was higher than expected due to order cancellations and postponements during fourth quarter 1998. The addition of experienced product managers for our rugged outdoor, occupational and casual categories in the first half of 1999 resulted in a review of every style to determine its fit with the Company's branded footwear lines. Many styles were eliminated and excess inventories of other styles were brought into line with anticipated demand through lower production schedules and appropriate markdowns during fourth quarter 1999. Inventory was $32.6 million at December 31, 1999, or 31% lower than on the same date a year ago. This reduction directly contributed to a net loss for the fourth quarter and full-year 1999, but was an integral step toward returning the Company to profitability beginning in 2000.

We were pleased to complete our $8 million finished goods distribution center during fourth quarter 1999. It is operating very well and has immediately contributed to improved inventory management and shipping efficiencies. During most of this past year we operated from four warehouses throughout Central Ohio. This resulted in a number of logistical challenges and additional expenses were incurred to respond promptly to customer orders. Those particular challenges are now behind us and we look forward to realizing further efficiencies this year.

This past year continued to highlight competitive pressures within the industry to lower production costs. In response to this growing trend we have implemented more efficient manufacturing methods and sought additional productivity gains within our factories. During most of 1999 we also made adjustments in our manufacturing plants to help bring inventory in line with demand. Temporary inefficiencies resulted from these actions which impacted gross margin.

We have pursued additional ways to balance manufacturing and product pricing demands. This has included sourcing certain footwear styles outside of the United States that are manufactured to our specifications. For 1999, sourcing grew to 26% of net sales from 18% the prior year. We anticipate that this percentage will continue to grow in the foreseeable future. During this past year we began to manufacture a GORE-TEX® rugged outdoor boot in China. The results thus far have been positive and may lead to additional styles being sourced.

A plan to shift a substantial amount of manufacturing from our Nelsonville, Ohio plant to our facilities in Puerto Rico and the Dominican Republic was announced recently. This very difficult decision was made in the best long-term interests of the Company and will be completed later this year.

The ROCKY® brand is in demand and growing. We have strong product lines in each of our categories and a sales management team focused on specific growth strategies. These plans are being executed through a sales force that is almost exclusively dedicated to selling the ROCKY® brand in their markets. This is resulting in new opportunities and is putting us in front of new channels of distribution. All of us are excited about our branded footwear and the potential sales growth that can be achieved.

We hired an experienced team of sales executives during the first half of 1999 that is led by John Friday, Executive Vice President-Sales. Positive contributions have been realized from these key additions, including implementation of focused growth strategies for our rugged outdoor, occupational, and casual categories. We anticipate that this commitment will enable the Company to substantially expand its customer base and enter additional distribution channels.

The ROCKY® brand is known for innovation and quality. Both of these attributes are apparent in two new lines being introduced this year, the ROCKY® Scent Control System™ and ROCKY® TMC™ (Technology Made Comfortable) Series of casual shoes. These two lines utilize waterproof GORE-TEX® fabric and HealthShield®, a specially treated anti-bacterial leather. The line of Scent Control System™ footwear includes 14 styles in leather and rubber. It is the most extensive launch of any ROCKY® footwear in the Company's 68-year history. ROCKY® TMC™ Series casual shoes, constructed of full-grain and nu buc leathers, offer flexibility and exceptional comfort with a unique footbed system.

On April 1, 2000 Barbara Brooks Fuller plans to retire from the Company. She has been Vice President of Retail Sales since 1985, a director of the Company since 1992, and throughout that period has made many valuable contributions. Under her leadership the Company's retail stores grew to $5.2 million in net sales for 1999. Robert D. Rockey, who is Chairman and Chief Executive Officer of Duck Head Apparel Company, Inc., will replace Barbara on the Board of Directors. Previously, he was Chairman and Chief Executive Officer of the Lennox Group from June 1997 to March 1999, and President of Levi Strauss & Company, N.A. from March 1978 to June 1997.

The combined effect of the actions we took during the past twelve months is expected to directly benefit our performance beginning in 2000. We fully recognize that this will be best demonstrated through significant improvement in financial results. Your patience and comments are genuinely appreciated.

Sincerely,

Mike Brooks
Chairman, President
and Chief Executive Officer
March 31, 2000

FORM 10-K

U.S. Securities and Exchange Commission

Washington, D.C. 20549

(Mark One)

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 1999

OR

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1943**

Commission File Number: 0-21026

ROCKY SHOES & BOOTS, INC.

(Exact name of Registrant as specified in its charter)

Ohio	**No. 31-1364046**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

39 East Canal Street
Nelsonville, Ohio 45764
(Address of principal executive offices, including zip code)

(740) 753-1951
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, without par value
Preferred Stock Purchase Rights

Indicate by checkmark 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, and (2) has been subject to the filing requirements for at least the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ☐

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $15,000,000 on March 16, 2000.

There were 4,489,215 shares of the Registrant's Common Stock outstanding on March 16, 2000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for 2000 Annual Meeting of Shareholders are incorporated by reference in Part III.

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "anticipate," "believe," "expect," "estimate," and "project" and similar words and expressions identify forward-looking statements which speak only as of the date hereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors, including, but not limited to, the factors discussed in "Business - Business Risks." The Company undertakes no obligation to publicly update or revise any forward-looking statements.

PART I

ITEM 1. BUSINESS.

Rocky Shoes & Boots, Inc. has two subsidiaries: Five Star Enterprises Ltd. ("Five Star"), a Cayman Islands corporation, which operates a manufacturing facility in La Vega, Dominican Republic, and Lifestyle Footwear, Inc. ("Lifestyle"), a Delaware corporation, which operates two manufacturing facilities in Aquadilla, Puerto Rico. Unless the context otherwise requires, all references to "Rocky" or the "Company" include Rocky Shoes & Boots, Inc. and its subsidiaries.

Overview

The Company is the successor to the business of The Wm. Brooks Shoe Company, a company established in 1932 by William Brooks, who was later joined by F. M. Brooks, the grandfather of the Company's current Chairman, President and Chief Executive Officer, Mike Brooks. The business was sold in 1959 to a company headquartered in Lancaster, Ohio. John W. Brooks, the father of Mike Brooks, remained as an employee of the business when it was sold. In 1975, John W. Brooks formed John W. Brooks, Inc. (later known as Rocky Shoes & Boots Co. ("Rocky Co.")) as an Ohio corporation, reacquired the Nelsonville, Ohio operating assets of the original company and moved the business's principal executive offices back to Nelsonville, Ohio. In 1993, the Company, Rocky Co., Lifestyle and Five Star were parties to a reorganization, and in 1996, Rocky Co. was merged with and into the Company, resulting in the Company's present corporate structure.

Following completion of the Company's initial public offering in 1993, the Company began to convert all of its factories to a modular "Team Pass-Through" manufacturing system. This system substantially increased total manufacturing capacity and operating efficiencies. Most of the Company's footwear is manufactured in the Company's facilities located in Nelsonville, Ohio, the Dominican Republic and Puerto Rico. The Company purchases raw materials from a number of domestic and foreign sources. The principal raw materials used in the production of the Company's footwear, in terms of dollar value, are leather, GORE-TEX waterproof fabric, CORDURA nylon fabric and soling materials. The Company's footwear is distributed nationwide and in Canada from the Company's finished warehouse located near Logan, Ohio. The Company stores finished goods in the warehouse until they are used to fill an order. If the product ordered is in inventory, it can be shipped to customers within one week of the order. In 1999, the Company made adjustments to production to bring inventory in line with demand. These adjustments led to temporary inefficiencies and affected gross margin.

In the past, the Company has benefited from a relatively low effective tax rate. The Company receives favorable tax treatment on income earned by its subsidiary in Puerto Rico and benefits from local tax abatements available to such subsidiary. Beginning the fourth quarter of Fiscal 1996, the Company elected to repatriate future earnings of its subsidiary in the Dominican Republic. The repatriation of earnings from its subsidiary in the Dominican Republic is subject to U.S. federal income tax, but is exempt from state and local taxation. In 1999, the Company elected not to repatriate all 1999 and future earnings of its subsidiary in the Dominican Republic. Consequently, no income taxes are provided on these cumulative earnings of approximately $5,109,000.

ROCKY® is a federally registered trademark of Rocky Shoes & Boots, Inc. This report also refers to trademarks of corporations other than the Company. See "Business - Patents, Trademarks and Trade Names."

Strategy

The Company's objective is to increase sales within its core product categories and markets and to leverage the ROCKY brand into new markets with products that emphasize the reputation of the Company's footwear for performance, innovation, quality, comfort and durability. Key elements of the Company's strategy are as follows:

Maintain Performance, Innovation and Quality. Performance, innovation and quality are hallmarks of the ROCKY brand. The Company believes it has developed a competitive advantage through its ability to produce high quality performance footwear incorporating premium materials such as GORE-TEX waterproof breathable fabric. The Company continually strives to develop new products and to introduce innovations in each of its footwear market segments. Recently, the Company introduced an extensive line of scent suppressant footwear featuring the ROCKY® Scent Control System™ as well as ROCKY® TMC Series of casual shoes. The Company stresses quality control at every stage of its manufacturing process. Each manufacturing facility is staffed with trained quality assurance personnel, and a portion of each manufacturing employee's compensation is based on the level of product quality of each employee's respective work group.

Increase Awareness of the ROCKY Brand. The Company believes that its long-term reputation for performance, innovation and quality has increased awareness of the ROCKY brand. To increase the strength of its brand, the Company has reformulated its advertising strategy by shifting its focus from the retail trade directly to the consumer. A key component of this new strategy includes advertising through cost-effective cable broadcasts aimed at audiences which share the demographic profile of the Company's typical customers. Similarly, the Company has shifted its national print advertising campaign to more consumer-oriented publications. Management believes that by directly targeting the consumer it can convey a broader and more consistent image of the ROCKY brand, thereby increasing demand for its products at higher retail prices.

Leverage the ROCKY Brand. The Company believes that the ROCKY brand has become a recognizable and established brand name for performance quality-conscious consumers in the rugged outdoor and occupational segments of the men's footwear market. The Company intends to continue to leverage the ROCKY brand with a major emphasis on broadening its share of the casual market segment Additionally, the Company licenses the ROCKY brand for use on certain complementary products, such as socks, hats and accessories in an effort to expand brand recognition.

Utilize Exclusive Rocky-Focused Sales Force. The Company historically sold its footwear through manufacturers' representatives who carried ROCKY brand products as well as other non-competing products. In an effort to ensure full representation of its complete product line and consistent support of its customers, late in 1995, the Company began replacing its manufacturers' representatives with exclusive sales representatives who sell only ROCKY brand products. Currently, approximately 87% of the Company's sales force is comprised of exclusive sales representatives.

Capitalize on Manufacturing Process. The Company manufactures its products under a twin-plant concept by producing its labor intensive "upper portion" in its lower wage rate plants in the Dominican Republic and Puerto Rico and completing its footwear in Puerto Rico and Nelsonville, Ohio where it uses state-of-the-art bottoming techniques. In early 1999, the Company began to manufacture opening price point hunting boots in the Dominican Republic. On March 1, 2000 the Company announced it plans to substantially decrease manufacturing at its Nelsonville, Ohio plant during 2000 by moving additional production to its plants in Puerto Rico and the Dominican Republic. The Company utilizes a modular "Team Pass-Through" manufacturing system in each of its manufacturing facilities. The Company believes that this system, which allows each person to perform a number of different tasks, is superior to a traditional assembly line approach, which requires each person to perform a single repetitive task. This system increases the number of pairs of footwear produced per square foot of manufacturing space, reduces work-in-process inventory and direct labor and improves the Company's production yields. In addition, the Company believes that its manufacturing process allows it to respond quickly to changes in product demand and consumer preferences.

Expand Product Sourcing. The Company's sourced products represented approximately 26% of its net sales in 1999. The Company primarily sources products from independent manufacturers in the Far East. The Company sources products which are manufactured to its specifications. This enables the Company to reach price points that it cannot obtain with most products manufactured in its own facilities. A greater portion of the Company's products may be sourced in the future if the Company

expands and reaches capacity in its manufacturing facilities. The Company employs a full-time quality assurance staff to inspect each shipment sourced in the Far East. All of the Company's sourced products are designed by the Company's design and engineering team.

Product Lines

The Company's product lines consist of rugged outdoor, occupational and casual footwear. ROCKY brand products emphasize quality, patented materials, such as GORE-TEX waterproof breathable fabric, CORDURA nylon fabric, CAMBRELLE cushioned lining and THINSULATE thermal insulation. The following table summarizes the Company's product lines:

	Rugged Outdoor	Occupational	Casual
TARGET MARKET	Hunters and outdoorsmen	Law enforcement and military personnel, security guards, postal workers, paramedics, industrial and construction workers	Retail customers of premium casual wear
SUGGESTED RETAIL PRICE RANGE	$89 - $259	$69 - $179	$69 - $189
DISTRIBUTION CHANNELS	Sporting goods stores, outdoor specialty stores and mail order catalogs	Retail uniform stores, mail order catalogs, specialty safety stores and independent retail stores	Independent retail stores, department store chains, mail order catalogs and sporting goods stores
COMPANY'S LEADING BRAND NAMES	BEAR CLAW, BEAR CLAW II, JASPER, and PRO HUNTER	ELIMINATOR, ROCKY 911 SERIES, ALPHA FORCE, WORKSMART, and WORKMAX	EURO TRAVELERS, ROCKY ROCKERS, FORMZ and WATERPROOF EXPLORERS

Rugged Outdoor Footwear. Rugged outdoor footwear, which is the Company's largest product line in terms of total net sales, represented $51.0 million, or 52.0%, of Fiscal 1999 net sales. The Company's rugged outdoor footwear consists of all season sport/hunting boots that are typically waterproof and insulated and a line of rubber footwear. Rubber footwear was introduced by the Company in 1998 and consists of patterned and non-patterned knee boots, chest and hip waders and insulated cold weather pack boots. These products are designed to keep outdoorsmen comfortable in extreme conditions. Most of the Company's rugged outdoor footwear have outsoles which are designed to provide excellent cushioning and traction. Although Rocky's rugged outdoor footwear is regularly updated to incorporate new camouflage patterns, the Company believes its products in this category are relatively insensitive to changing fashion trends.

Occupational Footwear. Occupational footwear, which is the Company's second largest product line, represented $29.9 million, or 30.5%, of Fiscal 1999 net sales. All occupational footwear styles are designed to be comfortable, flexible, lightweight, slip resistant and durable and are typically worn by people who are required to spend a majority of their time at work on their feet. Certain styles of the Company's occupational wear incorporate Gore's CROSSTECH fabric, which is resistant to blood-borne pathogens. Several of the Company's occupational footwear products are similar in design to certain of the Company's rugged outdoor footwear styles, except the Company's occupational footwear is primarily black in color and features innersole support systems. This product category includes work/steel toe footwear designed for industrial, construction and manufacturing workers who demand leather work boots that are durable, flexible and comfortable. Many companies require their workers to wear steel toe boots and often provide purchase programs for their employees' footwear needs.

Casual Footwear. Aggregate sales of the Company's casual footwear were $9.0 million in Fiscal 1999, accounting for 9.1% of net sales. The Company's casual products target the upscale segment of the market and include well-styled, comfortable leather shoes of a variety of constructions, including traditional handsewn. Most of the Company's footwear in this segment is waterproof and highly functional for outdoor activity. The Company has placed increased emphasis on expanding its market share

within the casual segment by increasing the number of its product offerings and more directly targeting the retail consumer. The Company currently offers approximately 80 styles of footwear within this market segment.

Factory outlet stores. The Company operates factory outlet stores in Nelsonville, Ohio and Westpoint, Mississippi. Products principally include factory damaged goods and close-outs from the Company and other manufacturers. In addition, related products manufactured by other manufacturers are sold in the stores. For 1999, net sales for factory outlet stores were $5.2 million, or 5.3% of the Company's total net sales.

Other. The Company manufactures and/or markets a variety of accessories, including GORE-TEX waterproof oversocks, GORE-TEX waterproof booties, innersole support systems, foot warmers, laces and foot powder. GORE-TEX waterproof oversocks are sold under the ROCKY brand and as private label products. Aggregate sales of other products were $3.0 million in Fiscal 1999, representing 3.1% of net sales.

Net Sales Composition. The following table indicates the percentage of net sales derived from each major product line and the factory outlet store for the periods indicated. Historical percentages may not be indicative of the Company's future product mix.

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Rugged outdoor footwear	52.0%	53.7%	52.4%
Occupational footwear	30.5	26.9	24.3
Casual footwear	9.1	9.1	8.2
Factory outlet stores	5.3	5.5	5.2
Other	3.1	4.8	9.9
	100.0%	100.0%	100.0%

Product Design and Development

Product design and development are initiated both internally by the Company's development staff and externally by customers and suppliers. The Company's product development personnel, marketing personnel and sales representatives work closely to identify opportunities for new styles, camouflage patterns, design improvements and the incorporation of new materials. These opportunities are reported to the Company's development staff which oversees the development and testing of the new footwear. The Company also receives design and product innovation ideas from tradeshows and from its customers and suppliers who work with the Company to design footwear incorporating desired features or product innovations. The Company strives to develop products which respond to the changing needs and tastes of consumers under time constraints imposed by the market. As part of the design process, the Company maintains a computer aided design (CAD) system, which significantly shortens the development period for new footwear styles. Once the product design has been approved for production, a last (a reusable form utilized in the manufacture of footwear) is developed by the Company and then reproduced by a third-party supplier.

Sales, Marketing and Advertising

The Company has developed comprehensive marketing and advertising programs to gain national exposure and create brand awareness for its ROCKY brand products in its targeted markets. By creating strong brand awareness, the Company seeks to increase the general level of retail demand for its products, expand its customer base and increase brand loyalty. The Company's footwear is sold by more than 3,000 retail and mail order companies in the United States and Canada. The Company's largest customers include: Cabela's, Inc., Bass Pro Shops, Inc., Dick's Clothing and Sporting Goods and Gander Mountain for rugged outdoor footwear; Fecheimer Brothers Uniforms, Inc., R & R Uniforms, Inc. and Galls, Inc. for occupational footwear; and J.C. Penney Company, Inc. for casual footwear. No single customer accounted for more than 10% of the Company's revenues in Fiscal 1999.

The Company's sales and marketing personnel are responsible for developing and implementing all aspects of advertising and promotion of the Company's products. In addition, the Company maintains a network of 53 exclusive sales representatives and manufacturers' representatives, operating in 17 geographic territories, who sell the Company's products throughout the United States and in Canada. The Company has historically sold its products through manufacturers' representatives who carried ROCKY brand products as well as other non-competing products. In an effort to ensure full representation of its complete product line and consistent support of its customers, late in 1995, the Company began replacing its manufacturers' representatives with exclusive sales representatives who sell only ROCKY brand products. Currently, 87% of the Company's sales force is comprised of exclusive sales representatives. The Company also changed its sales and manufacturing representatives compensation program by setting performance goals based on sales growth, development of new accounts and increased penetration of existing accounts with new products. The Company's exclusive sales representatives and manufacturers' representatives are paid on a commission basis and are responsible for sales, service and follow-up.

The Company advertises and promotes the ROCKY brand through a variety of methods, including product packaging, national print and television advertising and a telemarketing operation. In addition, the Company attends numerous tradeshows, which have historically been an important source of new orders and also works to establish the ROCKY brand amongst the trade industry. The Company's marketing personnel have developed a product list, product catalog and dealer support system which includes attractive point-of-sale displays and co-op advertising programs.

The Company believes its long-term reputation for quality has increased awareness of the ROCKY brand. To further increase the strength of its brand, the Company has targeted the majority of its advertising efforts toward end consumers. A key component of this strategy includes advertising through cost-effective cable broadcasts aimed at audiences which share the demographic profile of the Company's typical customers. Similarly, the Company has shifted its national print advertising campaign to several consumer publications: including: Field & Stream, North American Hunter, Outdoor Life, Men's Journal, Police and Security News, Rescue and Law and Order. The Company's print advertisements and television commercials emphasize the waterproof nature of the Company's footwear as well as its high quality, comfort, functionality and durability. Management believes that by continuing to target consumers, the ROCKY brand will become more recognizable and establish it as an overall leader in the industry leading to greater retail demand for the product.

All of the Company's advertisements include a toll free number for consumers to inquire about the Company's products and to locate their nearest retailer. When the consumer calls into this automated telemarketing service, they elect to speak with a customer service representative, receive a free brochure, or locate the three nearest dealers. The dealer locator service prompts the consumer for their zip code and responds with the name, address, and phone number of the three nearest dealers indicated by the zip code entered. By using different phone numbers for various advertising campaigns, the marketing department is able to track the effectiveness of the advertising and media used.

Manufacturing and Sourcing

The Company manufactures its products under a twin-plant concept by producing the labor intensive "upper portions" in its lower wage rate plants in the Dominican Republic and Puerto Rico and completing its footwear in Puerto Rico and Nelsonville, Ohio where it uses state-of-the-art bottoming techniques. In early 1999, the Company began to manufacture opening price point hunting boots in the Dominican Republic. During 2000, the Company plans to move certain manufacturing operations from Nelsonville to Puerto Rico and the Dominican Republic. The Company utilizes a modular "Team Pass-Through" manufacturing system in each of its manufacturing facilities. The Company believes that this system, which allows each person to perform a number of different tasks, is superior to a traditional assembly line approach, which requires each person to perform a single repetitive task. This system increases the number of pairs of footwear produced per square foot of manufacturing space, reduces work-in-process inventory and direct labor and improves the Company's production yields. In addition, the Company believes that its manufacturing process allows it to respond quickly to changes in product demand and consumer preferences.

Quality control is stressed at every stage of the manufacturing process and is monitored by trained quality assurance personnel at each of the Company's manufacturing facilities. Every pair of ROCKY footwear, or its component parts, produced at the Company's facilities is inspected at least five times during the manufacturing process with some styles inspected up to nine

times. Every GORE-TEX waterproof fabric bootie liner is individually tested by filling it with compressed air and submerging it in water to verify that it is waterproof. Quality control personnel at the Nelsonville, Ohio warehouse conduct quality control testing on incoming sourced finished goods and raw materials and inspect random samples from the finished goods inventory from each of the Company's manufacturing facilities to ensure that all items meet the Company's high quality standards. A portion of each manufacturing employee's compensation is based on the level of product quality of each employee's respective work group.

Most of the Company's footwear is produced in its own facilities in Nelsonville, Ohio, the Dominican Republic and Puerto Rico. The Company sources some footwear from manufacturers in the Far East, primarily China, which in 1999 accounted for approximately 26% of its revenues. During late 1998, the Company entered into a joint venture with a factory in China to develop GORE-TEX footwear products. Pursuant to the joint venture, the Company will supply the technology and know-how to the factory to become W. L. Gore certified. The Company has an exclusive agreement with the product source for two years. The Company believes this source will improve sourced product quality and produce better gross margins. A greater portion of the Company's products may be sourced in the future if the Company expands and reaches capacity in its manufacturing facilities. The Company sources products to reach price points that it cannot obtain with products manufactured in its own facilities. The Company will source products from outside facilities only if the Company believes that these facilities will maintain the high quality that has become associated with ROCKY brand footwear. All product sourcing is planned and implemented under the direction and supervision of the Company's Director of Sourcing.

As part of the Company's quality control process, the Company uses agents to visit foreign factories to conduct quality control reviews of raw materials, work in process inventory, and finished goods. In addition, upon arrival at the Company's facilities, another inspection of raw material and work in process inventory is conducted by Company personnel. The Company does not use hedging instruments with respect to foreign sourced products.

Compliance with federal, state and local regulations with respect to the environment has not had any material effect on the earnings, manufacturing process, capital expenditures or competitive position of the Company. Compliance with such laws or changes therein could have a negative impact in the future.

Suppliers

The Company purchases raw materials from a number of domestic and foreign sources. The Company does not have any long-term supply contracts for the purchase of its raw materials, except for limited blanket orders on leather to protect the Company's wholesale selling prices for an extended period of time. The principal raw materials used in the production of the Company's footwear, in terms of dollar value, are leather, GORE-TEX waterproof breathable fabric, CORDURA nylon fabric and soling materials. The Company believes that these materials will continue to be available from its current suppliers, and that, with the exception of GORE-TEX waterproof breathable fabric, there are acceptable present alternatives to these suppliers and materials.

GORE-TEX waterproof fabric is purchased under license directly from W. L. Gore & Associates, Inc. ("Gore"). A majority of the Company's footwear incorporates GORE-TEX waterproof breathable fabric. The Company, which has been a customer of Gore since 1980, was the first footwear manufacturer licensed by Gore to manufacture, promote, sell and distribute footwear worldwide using GORE-TEX waterproof breathable fabric. The Company is currently one of the largest customers of GORE-TEX waterproof breathable fabric for footwear. Although other waterproofing techniques or materials are available, the Company places a high value on its GORE-TEX license because the GORE-TEX trade name has high brand name recognition and the GORE-TEX waterproof breathable fabric used in the manufacture of ROCKY footwear has a reputation for quality and proven performance.

Under the Company's licensing agreement with Gore, a prototype or sample of each style of shoe or boot designed and produced by the Company that incorporates GORE-TEX waterproof breathable fabric must be tested and approved by Gore before the Company is permitted to manufacture or sell commercial quantities of that style of footwear. Gore's testing involves immersing the Company's footwear prototype for days in a water exclusion tester and flexing the prototype 500,000 times,

simulating a 500-mile march through several inches of water. The prototype is then placed in a sweat absorption and transmission tester to measure "breathability," which is the amount of perspiration that can escape from the footwear.

All of the Company's GORE-TEX fabric footwear is guaranteed to be waterproof for one year from the date of purchase. When a customer claims that a product is not waterproof, the product is returned to the Nelsonville, Ohio manufacturing facility for further testing. If the product fails this testing process, it is either replaced or credit is given, at the customer's discretion. The Company believes that, historically, the claims associated with this guarantee have been consistent with guarantee claims in the footwear industry.

Seasonality and Weather

The Company has historically experienced significant seasonal fluctuations in the sale of rugged outdoor footwear. A majority of orders for the Company's rugged outdoor footwear are placed in January through April for delivery in July through October. In order to meet demand, the Company must manufacture rugged outdoor footwear year round to be in a position to ship advance orders during the last two quarters of each calendar year. Accordingly, average inventory levels have been highest during the second and third quarters of each calendar year and sales have been highest in the last two quarters of each calendar year. Because of seasonal fluctuations, there can be no assurance that the results for any particular interim period will be indicative of results for the full year or for future interim periods.

Many of the Company's products, particularly its rugged outdoor footwear line, are used by consumers in cold or wet weather. Mild or dry weather can have a material adverse effect on sales of the Company's products, particularly if mild or dry weather conditions occur in broad geographical areas during late fall or early winter. Also, due to variations in weather conditions from year to year, results for any single quarter or year may not be indicative of results for any future quarter or year.

Footwear retailers in general have begun placing orders closer to the selling season. This increases the Company's business risk because it must produce and carry inventories for relatively longer periods. In addition, the later placement of orders may change the historical pattern of orders and sales and increase the seasonal fluctuations in the Company's business. There can be no assurance that the results for any particular interim period or year will be indicative of results for the full year or for any future interim period or year.

Backlog

At December 31, 1999 and December 31, 1998, backlog was $7.7 and $4.7 million, respectively. Because a majority of the Company's orders are placed in January through April for delivery in July through October, the Company's backlog is lowest during the October through December period and peaks during the April through June period. Factors other than seasonality could have a significant impact on the Company's backlog and, therefore, the Company's backlog at any one point in time may not be indicative of future results. Generally, orders may be canceled by customers prior to shipment without penalty.

Patents, Trademarks and Trade Names

The Company owns numerous United States patents for shoe upper and shoe sole designs. The Company is not aware of any infringement of its patents or that it is infringing any patents owned by third parties.

The Company owns United States federal registrations for its marks ROCKY®, ROCKY BOOTS® (which claims a ram's head Design as part of the mark), ROCKY BOOTS and Design® (which claims a ram's head Design as part of the mark), BEAR CLAW®, CORNSTALKERS®, COME WALK WITH U.S. and Design®, TAC-TEAM and Design®, ROCKY 911 SERIES and Design®, SNOW STALKER®, 4 WAY STOP and Design®, ROCKY and Design® for cigars, ROCKY ROCKY SHOES & BOOTS INC. SINCE 1932 and Design® plus a detailed full ram Design, and STALKERS®. Additional mark variations for ROCKY BOOTS® and Design (which claims a ram's head Design as part of the mark), AQUAGUARD™, FORMZ™, SILENTHUNTER™, PROHIKER™, ELIMINATOR™, PROHUNTER™, and LONGBEARD™ are the subject of pending United States federal applications for registration. In addition, the Company uses and has common law rights in the

marks ROCKY® MOUNTAIN STALKERS®, and other ROCKY® marks. During 1994, the Company began to increase distribution of its goods in several countries, including countries in Western Europe, Canada and Japan. The Company has applied for trademark registration of its ROCKY® mark in a number of foreign countries.

The Company also uses in its advertising and in other documents the following trademarks owned by corporations other than the Company: GORE-TEX® and CROSSTECH® are registered trademarks of W.L. Gore & Associates, Inc.; CORDURA® is a registered trademark of E.I. DuPont de Nemours and Company; THINSULATE® is a registered trademark of Minnesota Mining and Manufacturing Company; and CAMBRELLE® is a trademark of Koppers Industries, Inc. The Company is not aware of any material conflicts concerning its marks or its use of marks owned by other corporations.

Competition

The Company operates in a very competitive environment. Product function, design, comfort, quality, technological improvements, brand awareness, timeliness of product delivery and pricing are all important elements of competition in the markets for the Company's footwear. The Company believes that, based on these factors, it competes favorably in its rugged outdoor footwear and occupational footwear market niches. Many of the Company's competitors have greater financial, distribution and marketing resources than the Company. The Company has at least five major competitors in each of its markets. All of these competitors have strong brand name recognition in the markets that they serve.

The footwear industry is subject to rapid changes in consumer preferences. The Company's casual product line and certain styles within its rugged outdoor and occupational product lines are susceptible to fashion trends. Therefore, the success of these products and styles are more dependent on the Company's ability to anticipate and respond to changing fashion trends and consumer demands within its niche market in a timely manner. The Company's inability or failure to do so could adversely affect consumer acceptance of these product lines and styles and could have a material adverse effect on the Company's business, financial condition and results of operations.

Employees

At December 31, 1999, the Company had approximately 1,397 full-time employees and 22 part-time employees. Approximately 1,020 of these full-time employees are in the Dominican Republic and Puerto Rico. The Company has approximately 1,141 employees engaged in production and the balance in managerial and administrative positions. The production employees at the Nelsonville, Ohio facility are represented by the Union of Needletrades, Industrial and Textile Employees ("UNITE"). The current collective bargaining agreement between the Company and the union was reached in May 1998 and will expire in May 2000. The Company has initiated negotiations concerning its collective bargaining agreement with UNITE. The Company believes the agreement is consistent with other contracts in the footwear industry. Management considers its relations with all of its employees, both union and non-union, to be good.

Business Risks

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). In addition to the other information in this report, readers should carefully consider that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual results and could cause the Company's actual consolidated results of operations for 1998 and beyond, to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Dependence on Sales Forecasts. The Company's investments in infrastructure and product inventory are based on sales forecasts and are necessarily made in advance of actual sales. The markets in which the Company does business are highly competitive, and the Company's business is affected by a variety of factors, including brand awareness, changing consumer preferences, product innovations, fashion trends, retail market conditions, weather conditions and economic and other factors. One of management's principal challenges is to improve its ability to predict these factors, in order to enable the Company to better match production of its products with demand. In addition, the Company's growth over the years has created the need to

increase these investments in infrastructure and product and to enhance the Company's operational systems. To the extent sales forecasts are not achieved, costs associated with infrastructure and carrying cost of product inventory would represent a higher percentage of revenue, which would adversely affect the Company's financial performance.

Changes in Consumer Demand. The footwear industry is subject to rapid changes in consumer preferences. Demand for the Company's products, particularly the Company's casual product line and certain styles within its rugged outdoor and occupational product lines, may be adversely affected by changing fashion trends. The future success of the Company will depend upon the Company's ability to anticipate and respond to changing consumer preferences and fashion trends in a timely manner. The Company's failure to adequately anticipate or respond to such changes could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, sales of the Company's products may be negatively affected by weak consumer spending as a result of adverse economic trends or uncertainties regarding the economy. See "Business -- Competition."

Seasonality. The Company has historically experienced, and expects to continue to experience, significant seasonal fluctuations in the sale of its products. The Company's operating results have varied significantly in the past, and may vary significantly in the future, partly due to such seasonal fluctuations. A majority of the orders for the Company's rugged outdoor footwear are placed in January through April for delivery in July through October. To meet demand, the Company must manufacture its products year-round. Accordingly, average inventory levels have been highest during the second and third quarters of each calendar year, and sales have been highest in the last two quarters of each calendar year. The Company believes that sales of its products will continue to follow this seasonal cycle. Additionally, the Company does not have long-term contracts with its customers. Accordingly, there is no assurance that the results for any particular quarter will be indicative of results for the full year or for the future. The Company believes that comparisons of its interim results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to the factors mentioned above as well as factors discussed elsewhere in this Form 10-K, it is likely that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock will likely be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Seasonality and Weather."

Impact of Weather. Many of the Company's products, particularly its rugged outdoor footwear line, are used primarily in cold or wet weather. Mild or dry weather has in the past and may in the future have a material adverse effect on sales of the Company's products, particularly if mild or dry weather conditions occur in broad geographical areas during late fall or early winter. Also, due to variations in weather conditions from year to year, results for any single quarter or year may not be indicative of results for any future period. See "Business -- Seasonality and Weather."

Competition. The footwear industry is intensely competitive, and the Company expects competition to increase in the future. Many of the Company's competitors have greater financial, distribution and marketing resources than the Company. The Company's ability to succeed depends on its ability to remain competitive with respect to the quality, design, price and timely delivery of products. Competition could materially adversely affect the Company's business, financial condition and results of operations. See "Business -- Competition."

Reliance on Suppliers. The Company purchases raw materials from a number of domestic and foreign sources. The Company does not have any long-term supply contracts for the purchase of its raw materials, except for limited blanket orders on leather. The principal raw materials used in the production of the Company's footwear, in terms of dollar value, are leather, GORE-TEX waterproof fabric, CORDURA nylon fabric and soling materials. The Company believes that currently there are acceptable alternatives to these suppliers and materials, with the exception of the GORE-TEX waterproof fabric.

The Company is currently one of the largest customers of GORE-TEX waterproof fabric for use in footwear. The Company's licensing agreement with W.L. Gore & Associates, Inc. may be terminated by either party upon 90 days written notice. Although other waterproofing techniques and materials are available, the Company places a high value on its GORE-TEX waterproof breathable fabric license because GORE-TEX has high brand name recognition and the GORE-TEX waterproof fabric used in the manufacture of ROCKY footwear has a reputation for quality and proven performance. Even though the

Company does not believe that its supply of GORE-TEX waterproof fabric will be interrupted in the future, no assurance can be given in this regard. The Company's loss of its license to use GORE-TEX waterproof breathable fabric could materially adversely affect the Company's competitive position, which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Suppliers."

The Company delivers a majority of shipments to its customers via United Parcel Service ("UPS"). Possible interruptions of UPS's service in the future could have a material adverse effect on the Company's business, financial condition and results of operations. The Company utilizes other carriers and the U.S. Postal Service to deliver its shipments.

Changing Retailing Trends. Historically, the Company has chosen not to sell products to discount mass merchandisers. A continued shift in the marketplace from traditional independent retailers to large discount mass merchandisers has increased the pressure on many footwear manufacturers to sell products to large discount mass merchandisers at less favorable margins. Because of competition from large discount mass merchandisers, a number of small retailing customers of the Company have gone out of business, and in the future more of such customers may go out of business, which could have a material adverse effect on the Company's business, financial condition and results of operations. Although progressive independent retailers have attempted to improve their competitive position by joining buying groups, stressing personal service and stocking more products that address specific local needs, a continued shift to discount mass merchandisers could have a material adverse effect on the Company's business, Financial condition and results of operations and could cause the Company to reevaluate its strategy. See "Business -- Sales, Marketing and Advertising."

Reliance on Key Personnel. The development of the Company's business has been, and will continue to be, highly dependent upon Mike Brooks, Chairman, President and Chief Executive Officer, and David Fraedrich, Executive Vice President and Chief Financial Officer, and John Friday, Executive Vice President-Sales. Each of these executive officers has an at-will employment agreement with the Company. The employment agreements provide that in the event of termination of employment with the Company, the employee will receive a severance benefit and may not compete with the Company for a period of one year. The Company has obtained key man life insurance on Messrs. Brooks and Fraedrich in the amount of $1,146,022 and $1,143,602, respectively. The loss of the services of any of these officers could have a material adverse effect upon the Company's business, financial condition and results of operations.

Reliance on Foreign Manufacturing. Most of the Company's rugged outdoor and casual footwear uppers and some opening price point hunting boots are produced in the Dominican Republic. Therefore, the Company's business is subject to the risks of doing business offshore, such as: the imposition of additional United States legislation and regulations relating to imports, including quotas, duties, taxes or other charges or restrictions; weather conditions in the Dominican Republic; foreign governmental regulation and taxation; fluctuations in foreign exchange rates; changes in economic conditions; changes in the political stability of the Dominican Republic; and changes in relationships between the United States and the Dominican Republic. If any such factors were to render the conduct of business in the Dominican Republic undesirable or impracticable, the Company would have to locate new facilities for its manufacturing operations. There can be no assurance that additional facilities would be available to the Company or, if available, that such facilities could be obtained on terms favorable to the Company. Such a development would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Manufacturing and Sourcing."

Changes in Tax Rates. In past years, the Company's effective tax rate typically has been substantially below the United States federal statutory rates. The Company has paid minimal income taxes on income earned by its subsidiary in Puerto Rico due to tax credits afforded the Company under Section 936 of the Internal Revenue Code and local tax abatements. However, Section 936 of the Internal Revenue Code has been repealed such that future tax credits available to the Company will be capped beginning in 2002 and terminate in 2006. In addition, the Company's local tax abatements in Puerto Rico are due to expire in 2004. Before Fiscal 1996, the Company paid no foreign income tax on the income generated by its subsidiary in the Dominican Republic. During fourth quarter Fiscal 1996, the Company elected to repatriate future earnings of its subsidiary in the Dominican Republic. In 1999, the Company elected not to repatriate all 1999 and future earnings of its subsidiary in the Dominican Republic. Consequently, no income taxes are provided on these cumulative earnings of approximately $5,109,000.

The Company's future tax rate will vary depending on many factors, including the level of relative earnings and tax rates in each jurisdiction in which it operates and the repatriation of any foreign income to the United States. Accordingly, since October 1, 1996, the Company has accrued taxes on all amounts repatriated and will accrue taxes on future earnings as they are no longer deemed permanently invested. The Company cannot anticipate future changes in such laws. Increases in effective tax rates or changes in tax laws may have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Manufacturing. The Company currently plans to retain its internal manufacturing capability in order to continue benefiting from expertise the Company has gained with respect to footwear manufacturing methods conducted at its manufacturing facilities. The Company continues to evaluate its manufacturing facilities and independent manufacturing alternatives in order to determine the appropriate size and scope of its manufacturing facilities. There can be no assurance that the costs of products that continue to be manufactured by the Company can remain competitive with sourced products. On March 1, 2000 the Company announced it plans to substantially decrease manufacturing at its Nelsonville, Ohio plant during 2000 by moving additional production to its plants in Puerto Rico and the Dominican Republic.

Concentration of Stock Ownership; Certain Corporate Governance Measures. The directors, executive officers and principal shareholders of the Company beneficially own approximately 16.5 % of the Company's outstanding Common Stock. As a result, these shareholders are able to exert significant influence over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company. The Company has also adopted certain corporate governance measures which, individually or collectively, could delay or frustrate the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving the Company even if such events might be deemed by certain shareholders to be beneficial to the interest of the shareholders.

Volatility of Market Price. From time to time, there may be significant volatility in the market price of the Common Stock. The Company believes that the current market price of its Common Stock reflects expectations that the Company will be able to continue to market its products profitably and develop new products with market appeal. If the Company is unable to market its products profitably and develop new products at a pace that reflects the expectations of the market, investors could sell shares of the Common Stock at or after the time that it becomes apparent that such expectations may not be realized, resulting in a decrease in the market price of the Common Stock.

In addition to the operating results of the Company, changes in earnings estimates by analysts, changes in general conditions in the economy or the financial markets or other developments affecting the Company or its industry could cause the market price of the Common Stock to fluctuate substantially. In recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies, including the Company, for reasons unrelated to their operating performance. See "Market for the Registrant's Common Equity and Related Matters."

Accounting Standards. Changes in the accounting standards promulgated by the Financial Accounting Standards Board or other authoritative bodies could have an adverse affect on the Company's future reported operating results.

Environmental and Other Regulation. The Company is subject to various environmental and other laws and regulations, which may change periodically. Compliance with such laws or changes therein could have a negative impact on the Company's future reported operating results.

Limited Protection of Intellectual Property. The Company regards certain of its footwear designs as proprietary and relies on patents to protect those designs. The Company believes that the ownership of the patents is a significant factor in its business. Existing intellectual property laws afford only limited protection of the Company's proprietary rights, and it may be possible for unauthorized third parties to copy certain of the Company's footwear designs or to reverse engineer or otherwise obtain and use information that the Company regards as proprietary. The Company believes its patents provide a measure of security against competition, and the Company intends to enforce its patents against infringement by third parties. However, if the

Company's patents are found to be invalid, to the extent they have served, or would in the future serve, as a barrier to entry to the Company's competitors, such invalidity could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company owns United States federal registrations for a number of its trademarks, trade names and designs. Additional trademarks, trade names and designs are the subject of pending federal applications for registration. The Company also uses and has common law rights in certain trademarks. During 1994, the Company began to increase distribution of its goods in several foreign countries. Accordingly, the Company has applied for trademark registrations in a number of these countries. The Company intends to enforce its trademarks and trade names against unauthorized use by third parties. However, existing trademark and trade name laws afford only limited protection, and the laws of countries other than the United States may not protect the Company's proprietary rights to as great an extent as do the laws of the United States. Accordingly, regardless of the legal rights of the Company, it may be possible for unauthorized third parties to use the Company's trademarks, trade names or designs and realize monetary gain at the Company's expense. Although such unauthorized use may be illegal, the Company may be forced to expend substantial resources to enforce its rights and nonetheless be divested of a portion of its goodwill as a result of such unauthorized use. See "Business -- Patents, Trademarks and Trade Names."

Risks Associated with Forward Looking Statements. This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding the intent, belief and expectations of the Company and its management, such as statements concerning the Company's future profitability and its operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business Risks" in this Annual Report on Form 10-K and other factors detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Annual Report on Form 10-K 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 the Company or any other person that the objectives and plans of the Company will be achieved.

ITEM 2. PROPERTIES.

The Company's executive offices and factory outlet store are located in Nelsonville, Ohio in a two-story 25,000 square foot building adjacent to the Company's Nelsonville manufacturing facility. The first floor of this building, which consists of approximately 12,500 square feet, houses the Company's factory outlet store which was opened in late 1994. The second floor houses the Company's executive offices. The Company also owns a 5,000 square foot office building in Nelsonville, Ohio, subject to a mortgage, which is used to house administrative staff.

The Company owns a 98,000 square foot distribution warehouse in Nelsonville, Ohio. This facility is currently used to receive and warehouse raw materials and footwear uppers, and houses the footwear returns department.

The Company leases a 41,000 square foot manufacturing facility in Nelsonville, Ohio, from the William Brooks Real Estate Company, which is 20% owned by Mike Brooks, President and Chief Executive Officer of the Company. The lease expires in April 2003 and is renewable for two five-year terms.

During 1999, the Company leased three buildings of 54,000, 16,000 and 24,000 square feet, respectively, in Newark Ohio to store finished goods inventory, rubber products and retail inventory. The Company vacated the Newark facilities in late 1999 and consolidated finished goods, rubber products and retail inventory into Company-owned facilities.

Lifestyle leases a 20,500 square foot manufacturing facility and a 22,700 square foot manufacturing facility and warehouse in Puerto Rico from the Puerto Rico Industrial Development Company under net noncancellable operating leases, one

of which expired in 1998 and one of which expires in 2002. The Company is currently on a month-to-month basis in the facility whose lease expired in 1998. The Company has signed a lease for an 84,559 square foot facility in Puerto Rico and plans to move all of its operations to this location during second quarter 2000.

Five Star's manufacturing facility, consisting of three connected buildings and a stand-alone building, is located in a tax-free trade zone in the Dominican Republic. Five Star leases 82,600 square feet of this facility from the Dominican Republic Corporation for Industrial Development (the "DRCID") under a Consolidation of Lease Contract, dated as of December 13, 1993, the term of which expires on February 1, 2003. Five Star leases an additional stand-alone 32,000 square feet from the DRCID under a temporary lease. The Company is currently negotiating a permanent lease for the 32,000 square foot facility.

The Company leased a 3,900 square foot retail outlet store in Westpoint, Mississippi in October of 1998, pursuant to a lease which expires October 30, 2000.

The Company substantially completed construction of a finished goods distribution center near Logan, Ohio in December 1999. The building contains 192,000 square feet and is situated on 17.9 acres of land. The new distribution center became fully operational in the first quarter of 2000. The company has an option on an additional four acres of land.

ITEM 3. LEGAL PROCEEDINGS.

The Company is, from time to time, a party to litigation which arises in the normal course of its business. Although the ultimate resolution of pending proceedings cannot be determined, in the opinion of management, the resolution of such proceedings in the aggregate will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

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

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

The Company's Common Stock trades on the Nasdaq National Market under the symbol "RCKY." The following table sets forth the range of high and low sales prices for the Common Stock for the periods indicated, as reported by the Nasdaq National Market:

Quarter Ended	High	Low
March 31, 1998	19.00	14.38
June 30, 1998	17.50	13.75
September 30, 1998	14.38	7.25
December 31, 1998	8.00	5.00
March 31, 1999	6.75	4.75
June 30, 1999	9.38	4.81
September 30, 1999	8.50	5.53
December 31, 1999	8.13	6.63

On March 16, 2000, the last reported sales price of the Common Stock on the Nasdaq National Market was $4.00 per share. As of March 16, 2000, there were approximately 172 shareholders of record of the Common Stock.

The Company presently intends to retain its earnings to finance the growth and development of its business and does not anticipate paying any cash dividends in the foreseeable future. Future dividend policy will depend upon the earnings and financial condition of the Company, the Company's need for funds and other factors. Presently, the Line of Credit (as defined below) restricts the payment of dividends on the Common Stock. At December 31, 1999, the Company had no retained earnings available for distribution.

ITEM 6. SELECTED FINANCIAL DATA.

SELECTED FINANCIAL DATA
(in thousands, except for per share data)

	Years Ended				Twelve Months Ended 12/31/95 (UNAUDITED)	Six Months Ended 12/31/95
	12/31/99	12/31/98	12/31/97	12/31/96		
INCOME STATEMENT DATA						
Net sales	$ 98,099	$ 88,699	$ 95,027	$ 73,148	$ 60,384	$ 36,124
Net income (loss)	$ (5,130)	$ 2,262	$ 4,761	$ 2,806	$ (537)	$ (490)
BALANCE SHEET DATA						
Total assets	$ 89,333	$ 96,598	$ 80,955	$ 58,090	$ 49,081	$ 49,081
Long-term debt, less current maturities	25,177	26,878	13,407	19,520	16,554	16,554
Shareholders' equity	50,229	59,635	59,197	26,375	23,569	23,569
PER SHARE						
Net income (loss):						
Basic	$ (1.09)	$ 0.42	$ 1.16	$ 0.77	$ (0.15)	$ (0.13)
Diluted	$ (1.09)	$ 0.41	$ 1.10	$ 0.74	$ (0.15)	$ (0.13)
Weighted average number of shares outstanding:						
Basic	4,710	5,425	4,088	3,666	3,666	3,666
Diluted	4,710	5,527	4,330	3,776	3,666	3,666

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

References to Fiscal 1999, 1998 and 1997 are to Fiscal years of the Company ended December 31 of the respective year.

PERCENTAGE OF NET SALES

	1999	1998	1997
Net sales	100.0%	100.0%	100.0%
Costs of goods sold	84.9	76.9	72.9
Gross margin	15.1	23.1	27.1
Selling, general and Administrative expenses	20.4	19.4	17.3
Income (Loss) from operations	(5.3%)	3.7%	9.8%

Fiscal 1999 Compared to Fiscal 1998

Net Sales

Net sales rose 10.6% to $98,099,184 for Fiscal 1999 compared with $88,699,413 for Fiscal 1998. A significant portion of this increase was due to higher sales in the Company's occupational and rugged outdoor footwear categories. The occupational category grew approximately $6.0 million in Fiscal 1999 versus the prior year, benefiting from additional styles and increased market acceptance of the Company's branded products. The rugged outdoor category, which includes all season sport/hunting boots that are typically waterproof and insulated, and a line of rubber footwear, increased approximately $3.4 million in Fiscal 1999 compared with a year ago. Sales of rubber footwear, which were introduced in Fiscal 1998, were particularly strong compared to Fiscal 1998. Casual footwear sales rose $0.9 million for Fiscal 1999 compared to Fiscal 1998. Average list prices for the Company's products were approximately 2% higher in Fiscal 1999 than the prior year.

Gross Margin

Gross margin declined $5,671,956 to $14,842,416 in Fiscal 1999 from $20,514,372 in Fiscal 1998. As a percentage of net sales, gross margin was 15.1% for Fiscal 1999 versus 23.1% for Fiscal 1998. The Company ended Fiscal 1998 with higher than anticipated inventory and implemented plans during Fiscal 1999 to bring it into line with expected sales, including an aggressive inventory reduction program during the fourth quarter of the year. Manufacturing inefficiencies resulting from relocating certain production operations to the Company's Dominican Republic facilities throughout the second half of Fiscal 1999, as well as the sale of certain inventory at low or negative margins during fourth quarter 1999, adversely impacted Fiscal 1999 gross margin compared to Fiscal 1998. As a result of the inventory reduction program, the Company established a reserve of $445,000 for inventories where the estimated net realizable value is deemed to be less than cost. The reserve was recorded in cost of goods sold.

Selling, General & Administrative Expenses

Selling, general & administrative ("SG&A") expenses increased $2,812,146 to $20,020,357 for Fiscal 1999 from $17,208,211 for Fiscal 1998. As a percentage of net sales, SG&A expenses were 20.4% for Fiscal 1999 versus 19.4% the prior year. This was principally due to substantially higher costs to temporarily operate four warehouse facilities and additional shipping costs while the Company's finished goods distribution center was being constructed and substantially completed in December 1999. In addition, the Company expanded the use of co-op advertising during Fiscal 1999 to support sales.

Interest Expense

Interest expense rose $681,071 to $2,415,682 for Fiscal 1999 versus $1,734,611 for Fiscal 1998. The higher interest expense was attributable to additional interest expense associated with the higher than anticipated inventory during most of Fiscal 1999, the Company's share repurchase program, and somewhat higher interest rates in Fiscal 1999 versus Fiscal 1998.

Other Income

Other income-net decreased $454,786 to $236,287 in Fiscal 1999 compared to $691,073 in Fiscal 1998. The lower other income is due to a decrease in interest income earned on the Company's lower average cash balances in 1999 compared to 1998, and fewer cash discounts earned on early payments of trade payables.

Income Taxes

The Company recognized an income tax benefit of $2,227,579 for Fiscal 1999 compared with income tax expense of $426 for Fiscal 1998. The current year benefit resulted from losses generated in Rocky, Inc., offset by income earned in the Dominican Republic and losses in the Company's Puerto Rican subsidiary. The primary components of the income tax benefit were a net operating loss carry back of $1,671,000 and a net operating loss carry forward of $1,794,000 which was offset by a $822,000 reduction of the uniform capitalization costs as a result of reduced inventory levels. The Company's effective tax benefit rate of 31.1% reflects favorable tax treatment in Puerto Rico and the Dominican Republic. Effective in 1999, the Company intends to reinvest accumulated undistributed earnings of Five Star, which amounted to $5,109,000 as of December 1999, in the Dominican Republic. As a result of this decision, no taxes were provided on the 1999 earnings of the Company's Dominican Republic subsidiary. In addition, Section 936 of the Internal Revenue Code has been repealed such that future tax credits available to the Company will be capped beginning in 2002 and terminate in 2006. The Company receives abatements on its Commonwealth and municipal taxes on its subsidiary in Puerto Rico.

FISCAL 1998 COMPARED TO FISCAL 1997

Net Sales

Net sales increased $6,327,373, or 6.7%, to $88,699,413 for Fiscal 1998 versus $95,026,786 for Fiscal 1997. Rugged outdoor footwear sales decreased $2,145,547 in Fiscal 1998 versus Fiscal 1997. This decrease resulted from lower sales of insulated rugged outdoor footwear due to retail carryover from the prior year's selling season and unusually mild weather during the final four months of the year. These factors caused the Company to experience substantial order cancellations and reductions of re-orders of rugged outdoor footwear during the second half of Fiscal 1998. Although sales of rugged outdoor footwear declined in Fiscal 1998 versus Fiscal 1997, the category benefited from the introduction of ROCKY® rubber products. Occupational footwear sales increased $750,506 in Fiscal 1998 compared to Fiscal 1997. Casual footwear sales rose $331,047 in Fiscal 1998 versus Fiscal 1997. Average prices for the Company's products were approximately 2% higher in Fiscal 1998 than the prior year. Additionally, in Fiscal 1998 the Company discontinued a contract to manufacture shoe uppers on a private label basis for a customer.

Gross Margin

Gross margin declined $5,212,343, or 20.3%, to $20,514,372 for Fiscal 1998 versus $25,726,715 for Fiscal 1997. As a percentage of net sales, gross margin declined to 23.1% for Fiscal 1998 from 27.1% for Fiscal 1997. The reduction in gross margin was primarily a result of lower than expected sales, which resulted in temporary manufacturing inefficiencies. The Company attempted to respond promptly throughout Fiscal 1998 to changes in retail demand, unusual weather conditions, and higher than planned inventories. However, some manufacturing inefficiencies could not be avoided due to fluctuating demand for the Company's products. Additionally, gross margin was negatively impacted by increased expenses associated with hardware and software upgrades to enhance inventory management systems.

Selling, General & Administrative Expenses

Selling, general & administrative expenses ("SG&A") increased $791,870, or 4.8%, to $17,208,211 for Fiscal 1998 versus $16,416,341 for Fiscal 1997. As a percentage of net sales, SG&A increased to 19.4% for Fiscal 1998, versus 17.3% for Fiscal 1997. The increase in SG&A for Fiscal 1998 was due to the addition of new product managers, higher employee benefit costs and increased advertising expenditures.

Interest Expense

Interest expense declined $818,121, or 32.0%, to $1,734,611 for Fiscal 1998 versus $2,552,732 for Fiscal 1997. This decrease was a result of lower outstanding balances on the Company's credit facility during Fiscal 1998, and more favorable interest rates due to re-negotiation of the Company's credit facility during the second quarter of Fiscal 1998. The Company received net proceeds of $26.9 million from a follow-on common stock offering during the fourth quarter of Fiscal 1997. The proceeds were used to reduce outstanding debt which resulted in lower interest expense for the fourth quarter of Fiscal 1997 and first nine months of Fiscal 1998.

Other Income

Other income-net increased $588,385, to $691,073, in Fiscal 1998 compared to $108,688 in Fiscal 1997 due primarily to increases in interest income earned on the Company's cash balances, increases in licensing income, and increases on discounts earned on early payments of trade payables.

Income Taxes

Income tax expense was $426 for Fiscal 1998 versus $2,105,000 for Fiscal 1997. The current year tax expense resulted from taxes on the Company's Puerto Rican subsidiary offset by a benefit generated from the net operating losses incurred in the U.S. and the Dominican Republic. The Company's effective tax rate in Fiscal 1997 was 30.7%, which reflected favorable tax treatment afforded income earned by the Company's subsidiary in Puerto Rico and local tax abatements available to the Company's subsidiary in Puerto Rico. The income of this subsidiary is exempt from taxation under Section 936 of the Internal Revenue Code. However, Section 936 of the Internal Revenue Code has been repealed such that future tax credits available to the Company will be capped beginning in 2002 and terminate in 2006. The Company receives abatements on its Commonwealth and municipal taxes on its subsidiary in Puerto Rico.

Liquidity and Capital Resources

The Company principally funds its working capital requirements and capital expenditures through net income, borrowings under its credit facility and other indebtedness. Working capital is primarily used to support changes in accounts receivable and inventory as a result of the Company's seasonal business cycle and business expansion. These requirements are generally lowest in the months of January through March of each year and highest during the months of May through October of each year. In addition, the Company requires capital to support additions to machinery, equipment and facilities as well as the introduction of new footwear styles. The Company had working capital of $48,467,902 and $67,468,343 at December 31, 1999 and 1998, respectively.

The Company renegotiated its credit facility during second quarter 1998, which reduced its cost of borrowed funds. The credit facility has maximum borrowings that range from $25,000,000 (from January 28 to March 31 annually) to $42,000,000 (from April 1 to January 27 annually). At December 31, 1999, the Company had borrowings under the credit facility of $31,900,000. At December 31, 1999, the Company did not comply with certain bank covenants. In March 2000, the Company obtained a waiver from the bank with respect to such events of noncompliance. In addition, the Company and the bank have had discussions with respect to the possible modification and adjustment of certain terms of the agreement. The Company and the bank expect these discussions to continue in the near future. Based on the Company's projected results of operations for 2000 and the possible modification of certain covenants, management believes it is probable that the Company will be in compliance with

the covenants in 2000. However, if the Company's performance falls below the projected results of operations for 2000, the Company's liquidity and ability to obtain further financing to fund future operating and capital requirements could be negatively impacted.

During first quarter 2000, the Company completed mortgage financing with GE Capital for three of its facilities totaling $6,300,000, with monthly payments of $63,100 to 2014. Proceeds from the financing were used to pay down borrowings under the revolving credit facility.

The Company's cash flow from operations increased to $5,100,000 in 1999, while the Company's operating activities in 1998 and 1997 used $7,900,000 and $6,400,000 of cash flows, respectively. The primary cause of the cash generated from operations in 1999 was due to the significant reduction in inventory due to increased sales in the fourth quarter. Correspondingly, the cash flows used in operating activities in 1998 and 1997 were due primarily to the increase in inventory in those years.

The principal use of cash flows in investing activities over the last three years has been for investment in property, plant and equipment. In 1999, property, plant and equipment expenditures were $9,600,000 or $2,800,000 over 1998 amounts due primarily to the completion of the Company's new distribution facility in late December 1999. 1998 fixed asset expenditures were $6,800,000 or $2,400,000 greater than 1997 amounts due primarily to hardware and software upgrades and manufacturing equipment purchases. Capital expenditures for Fiscal 2000 are expected to be approximately $2 million to support manufacturing, including expenditures for lasts, dies and patterns for new footwear styles.

The largest financing activity in 1999 and 1998 involved the purchase of $4,300,000 and $2,000,000, respectively, of the Company's common stock which was financed primarily by increased borrowings under its revolving credit facility. In 1997, the Company received $26,900,000 in net proceeds from a common stock offering. The proceeds were used to reduce borrowings and increase working capital.

The Company believes it will be able to finance capital additions and meet operating expenditure requirements for Fiscal 2000 through cash balances, additional long-term borrowings, and operating cash flows.

Inflation

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

Safe Harbor Statement Under The Private Securities Litigation Reform Act of 1995

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, 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 the intent, belief and expectations of the Company and its management, such as statements concerning the Company's future capital expenditures. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, dependence on sales forecasts, changes in consumer demand, seasonality, impact of weather, competition, reliance on suppliers, changing retail trends, as well as other factors set forth under the caption "Business Risks" in this Annual Report on Form 10-K and other factors detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included herein 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 the Company or any other person that the objectives and plans of the Company will be achieved.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company's primary market risk results from fluctuations in interest rates. The Company is also exposed to changes in the price of commodities used in its manufacturing operations. However, commodity price risk related to the Company's current commodities is not material as price changes in commodities are usually passed along to the final customer. The Company does not hold any material market risk sensitive instruments for trading purposes.

The Company has the following three items that are market rate sensitive for interest rates: (1) Long-term debt consists of a credit facility with a balance at December 31, 1999 of $31,900,000. Interest is payable monthly at the bank's LIBOR rate (plus 100 to 190 basis points) or prime. In order to minimize the effect of the interest rate fluctuation, the Company has one interest rate swap arrangement with a major bank for a total notional amount of $15,000,000. Under this agreement, the Company pays a weighted average fixed rate of 6% (plus 100 to 190 basis points). (2) The Company also has equipment and other obligations at December 31, 1999, that bear interest at fixed and variable rates ranging from 3.0% to 8.5%. (3) The Company has a real estate obligation at December 31, 1999, that bears interest at a variable rate of 7.375%.

Assuming a hypothetical 20% change in short-term interest rates, interest expense would not change significantly, as the interest rate swap agreement would principally offset the impact.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Company's consolidated financial balance sheets as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 1999, 1998, and 1997, together with the independent auditors' report thereon appear on pages F-1 through F-20 hereof, and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item is included under the captions "ELECTION OF DIRECTORS" and "INFORMATION CONCERNING THE DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - EXECUTIVE OFFICERS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in the Company's Proxy Statement for the 2000 Annual Meeting of Shareholders (the "Proxy Statement") to be held on May 24, 2000, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is included under the captions "INFORMATION CONCERNING THE DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS" and "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION" in the Company's Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is included under the caption "INFORMATION CONCERNING THE DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS - OWNERSHIP OF COMMON STOCK BY MANAGEMENT" and "- OWNERSHIP OF COMMON STOCK BY PRINCIPAL SHAREHOLDERS," in the Company's Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is included under the caption "INFORMATION CONCERNING THE DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS - COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION" in the Company's Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

(1) The following Financial Statements are included in this Annual Report on Form 10-K on the pages indicated below:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 1999 and 1998 .... F-2 - F-3
Consolidated Statements of Operations for the fiscal years ended December 31, 1999, 1998, and 1997 .... F-4
Consolidated Statements of Shareholders' Equity for the fiscal years ended December 31, 1999, 1998, and 1997 .... F-5
Consolidated Statements of Cash Flows for the fiscal years ended December 31, 1999, 1998, and 1997 .... F-6
Notes to Consolidated Financial Statements for the fiscal years ended December 31, 1999, 1998, and 1997 .... F-7 - F-20

(2)The following financial statement schedule for the fiscal years ended December 31, 1999, 1998, and 1997 is included in this Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements contained in the Annual Report.

Schedule II -- Consolidated Valuation and Qualifying Accounts

Schedules not listed above are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements or the notes thereto.

(3) Exhibits:

Exhibit Number	Description
3.1	Second Amended and Restated Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
3.2	Amended and Restated Code of Regulations of the Registrant (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1, registration number 33-56118 (the "Registration Statement").
4.1	Form of Stock Certificate for the Registrant (incorporated by reference to Exhibit 4.1 to the Registration Statement).
4.2	Articles Fourth, Fifth, Sixth, Seventh, Eighth, Eleventh, Twelfth, and Thirteenth of the Registrant's Amended and Restated Articles of Incorporation (see Exhibit 3.1).
4.3	Articles I and II of the Registrant's Code of Regulations (see Exhibit 3.2).
10.1	Form of Employment Agreement, dated July 1, 1995, for executive officers (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (the "1995 Form 10-K")).
10.2	Information concerning Employment Agreements substantially similar to Exhibit 10.1.
10.3	Deferred Compensation Agreement, dated May 1, 1984, between Rocky Shoes & Boots Co. and Mike Brooks (incorporated by reference to Exhibit 10.3 to the Registration Statement).
10.4	Information concerning Deferred Compensation Agreements substantially similar to Exhibit 10.3.
10.5	Form of Company's amended 1992 Stock Option Plan (incorporated by reference to Exhibit 10.5 to the 1995 Form 10-K).
10.6	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement).
10.7	Revolving Credit Loan Agreement, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., Bank One Columbus, N.A., The Huntington National Bank, and Bank One, Columbus, N.A., as Agent (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (the "1996 Form 10-K")).
10.8	Term Loan Agreement and First Amendment to Revolving Credit Loan Agreement, dated as of April 18, 1997, between the Registrant, Five Star Enterprises Ltd., Lifestyle Footwear, Inc., Bank One, Columbus, N.A., the Huntington National Bank, and Bank One, Columbus, N.A., as Agent (incorporated by reference to Exhibit 10.8 to Form S-2 filed September 11, 1997, registration number 333-35391).

Exhibit Number	Description
10.9	Second Amendment to Revolving Credit Loan Agreement dated May 29, 1998, among the Registrant, Five Star Enterprises Ltd., Lifestyle Footwear, Inc., Bank One, N.A., The Huntington National Bank, and Bank One, N.A., as Agent (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (the "June 30, 1998 Form 10-Q")).
10.10	Second Amended and Restated Master Business Loan Note, dated May 29, 1998, among the Registrant, Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and payable to Bank One, N.A. (incorporated by reference to Exhibit 10.3 of the June 30, 1998 Form 10-Q).
10.11	Second Amended and Restated Master Business Loan Note, dated May 29, 1998, among the Registrant, Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and payable to The Huntington National Bank (incorporated by reference to Exhibit 10.3 of the June 30, 1998 Form 10-Q).
10.12	Master Agreement, dated as of February 1, 1996, by and between Bank One, Columbus, N.A., and Rocky Shoes & Boots Co. (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1995).
10.13	Indemnification Agreement, dated December 21, 1992, between the Registrant and Mike Brooks (incorporated by reference to Exhibit 10.10 to the Registration Statement).
10.14	Information concerning Indemnification Agreements substantially similar to Exhibit 10.13 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993 (the "1993 Form 10-K")).
10.15	Trademark License Agreement and Manufacturing Certification Agreement, each dated May 14, 1994, between Rocky Shoes & Boots Co. and W. L. Gore & Associates, Inc. (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994 (the "1994 Form 10-K")).
10.16	Decree of Tax Exemption from the Government of the Commonwealth of Puerto Rico (incorporated by reference to Exhibit 10.13 to the Registration Statement).
10.16A	English Translation of Addendum to Exhibit 10.16 (incorporated by reference to Exhibit 10.13A to the Registration Statement).
10.17	Lease Agreement, dated May 1, 1998, as amended, between Rocky Shoes & Boots Co. and William Brooks Real Estate Company regarding Nelsonville factory (incorporated by reference to Exhibit 10.3 of the June 30, 1998 Form 10-Q).
10.18	Lease Contract, dated August 31, 1988, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development Company regarding factory location 1 (incorporated by reference to Exhibit 10.15 to the Registration Statement).

Exhibit Number	Description
10.19	Lease Contract, undated, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development company regarding factory location 2 (incorporated by reference to Exhibit 10.16 to the Registration Statement).
10.19A	English translation of Exhibit 10.19 (incorporated by reference to Exhibit 10.16A to the Registration Statement).
10.20	Lease Agreement, dated December 13, 1993, between Five Star Enterprises Ltd. and the Dominican Republic Corporation for Industrial Development regarding buildings and annexes of a combined manufacturing surface of 75,526 square feet, located in the Industrial Free Zone of La Vega (incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 (the "September 30, 1995 Form 10-Q")).
10.20A	English translation of Exhibit 10.20 (incorporated by reference to Exhibit 10.2A to the September 30, 1995 Form 10-Q).
10.21	Continuing Security Agreement, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and Bank One, Columbus, N.A., as Agent (incorporated by reference to Exhibit 10.18 to the 1996 Form 10-K).
10.22	Loan Purchase, Assignment and Master Amendment Agreement, dated as of February 1, 1996, among Bank One Columbus, N.A., NBD Bank, NBD Bank, as Agent, Rocky Shoes & Boots, Inc., Rocky Shoes & Boots, Co., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1995).
10.23	Installment Business Loan Note, dated August 19, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.20 to the 1994 Form 10-K).
10.24	Second Amendment to Business Loan Note, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (incorporated by reference to Exhibit 10.21 to the 1996 Form 10-K).
10.25	Term Lease Master Agreement, dated April 27, 1993, between Rocky Shoes & Boots, Inc. and IBM Credit Corporation (incorporated by reference to Exhibit 10.22 to the 1993 Form 10-K).
10.26	Fourth Amendment to Promissory Note, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (incorporated by reference to Exhibit 10.23 to the 1996 Form 10-K).
10.27	Acceptance Credit Agreement, dated May 4, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.24 to the 1994 Form 10-K).

Exhibit Number	Description
10.28	Adjustable Rate Note, dated May 23, 1988, between Nelsonville Home and Savings Association and Rocky Shoes & Boots Co. (incorporated by reference to Exhibit 10.25 to the Registration Statement).
10.29	First Amendment to Acceptance Credit Agreement, dated October 20, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.26 to the 1994 Form 10-K).
10.30	Form of Company's Amended and Restated 1995 Stock Option Plan (incorporated by reference to Exhibit 4(a) to the Registration Statement on Form S-8, registration number 333-67357).
10.31	Form of Stock Option Agreement under the 1995 Stock Option Plan (incorporated by reference to Exhibit 10.28 to the 1995 Form 10-K).
10.32	Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated March 30, 1995, between Rocky Shoes & Boots Co. and NBD Bank, as Agent (incorporated by reference to Exhibit No. 10.3 to the March 31, 1995 Form 10-Q).
10.33	Installment Business Loan Note, dated May 11, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.30 to the 1994 Form 10-K).
10.34	Construction and Term Loan Agreement, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.31 to the 1994 Form 10-K).
10.35	Promissory Note, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.32 to the 1994 Form 10-K).
10.36	Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.33 to the 1994 Form 10-K).
10.37	First Amendment to Construction and Term Loan Agreement, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.34 to the 1994 Form 10-K).
10.38	First Amendment to Promissory Note, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.35 to the 1994 Form 10-K).
10.39	First Amendment to Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (incorporated by reference to Exhibit 10.36 to the 1994 Form 10-K).

Exhibit Number	Description
10.40	Letter Agreement between the Registrant and the Kravetz Group, dated August 3, 1994 (incorporated by reference to Exhibit No. 10.6 to the March 31, 1995 Form 10-Q).
10.41	Amended and Restated Master Business Loan Note, dated March 30, 1995, among the Registrant, Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc. (incorporated by reference to Exhibit No. 10.4 to the March 31, 1995 Form 10-Q).
10.42	Third Amendment to Construction and Term Loan Agreement, dated as of March 30, 1995, among the Registrant, Rocky Shoes & Boots Co., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (incorporated by reference to Exhibit No. 10.5 to the March 31, 1995 Form 10-Q).
10.43	Loan Agreement, dated as of October 7, 1994, between the Director of Development of the State of Ohio and Rocky Shoes & Boots Co. (incorporated by reference to Exhibit 10.43 to the 1995 Form 10-K).
10.44	Promissory Note, dated October 7, 1994, by Rocky Shoes & Boots Co. to the Director of Development of the State of Ohio (incorporated by reference to Exhibit 10.44 to the 1995 Form 10-K).
10.45	Security Agreement, dated as of October 7, 1994, between the Director of Development of the State of Ohio and Rocky Shoes & Boots Co. (incorporated by reference to Exhibit 10.45 to the 1995 Form 10-K).
10.46	Form of Employment Agreement, dated September 7, 1995, for executive officers (incorporated by reference to Exhibit 10.5 to the September 30, 1995 Form 10-Q).
10.47	Information covering Employment Agreements substantially similar to Exhibit 10.46 (incorporated by reference to Exhibit 10.5 to the September 30, 1995 Form 10-Q).
10.48	Termination of Buy-Sell Agreement, dated August 18, 1998, among the Registrant, Mike Brooks, Barbara Brooks Fuller, Patricia H. Robey, Jay W. Brooks, and Charles Stuart Brooks (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
10.49	Employment Agreement, dated April 27, 1999, between the Company and John E. Friday.
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to Form S-2 filed September 11, 1997, registration number 333-35391).
23	Independent Auditors' Consent and Report on Schedules of Deloitte & Touche LLP.
24	Powers of Attorney.
27	Financial Data Schedule.
99.1	Independent Auditors' Report on Schedules of Deloitte & Touche LLP (incorporated by reference to Exhibit 23).
99.2	Financial Statement Schedule.

The Registrant agrees to furnish to the Commission upon its request copies of any omitted schedules or exhibits to any Exhibit filed herewith.

(b) REPORTS ON FORM 8-K

None

(c) EXHIBITS

The exhibits to this report begin immediately following the signature page.

(d) FINANCIAL STATEMENT SCHEDULES

The financial statement schedule and the independent auditors' report thereon are included on the following pages.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 SHOES & BOOTS, INC.

Date: March 30, 2000

By: /s/ DAVE FRAEDRICH
Dave Fraedrich, Executive Vice President,
Treasurer, and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the dates indicated.

Signature	Title	Date
* MIKE BROOKS Mike Brooks	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 30, 2000
/s/ DAVE FRAEDRICH Dave Fraedrich	Executive Vice President, Treasurer, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 30, 2000
* CURTIS A. LOVELAND Curtis A. Loveland	Secretary and Director	March 30, 2000
Leonard L. Brown	Director	March 30, 2000
* BARBARA BROOKS FULLER Barbara Brooks Fuller	Director	March 30, 2000
* STANLEY I. KRAVETZ Stanley I. Kravetz	Director	March 30, 2000
* JAMES L. STEWART James L. Stewart	Director	March 30, 2000
* ROBERT D. STIX Robert D. Stix	Director	March 30, 2000

*By: /s/ CURTIS A. LOVELAND
Curtis A. Loveland, Attorney-in-Fact

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Rocky Shoes & Boots, Inc.:

We have audited the accompanying consolidated balance sheets of Rocky Shoes & Boots, Inc. and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rocky Shoes & Boots, Inc. and subsidiaries as of December 31, 1999 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Columbus, Ohio
March 30, 2000

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	1999	1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,330,324	$ 7,232,876
Accounts receivable - trade, net	18,712,588	15,595,483
Refundable income taxes	3,850,000	
Other receivables	1,377,394	1,654,471
Inventories	32,573,067	47,110,011
Deferred income taxes	1,017,331	1,735,699
Other current assets	1,222,914	871,533
Total current assets	61,083,618	74,200,073
FIXED ASSETS, AT COST:		
Property, plant and equipment	45,012,101	37,346,300
Less - accumulated depreciation	(18,879,879)	(16,842,446)
Total fixed assets - net	26,132,222	20,503,854
DEFERRED PENSION ASSET	357,520	884,268
OTHER ASSETS	1,759,994	1,010,274
TOTAL ASSETS	$ 89,333,354	$ 96,598,469

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1999	December 31, 1998
CURRENT LIABILITIES:		
Accounts payable	$ 2,128,112	$ 2,194,026
Current maturities - long-term debt	8,599,897	2,927,625
Accrued expenses:		
Taxes - other	412,721	479,211
Salaries and wages	569,203	511,916
Other	905,783	618,952
Total current liabilities	12,615,716	6,731,730
LONG-TERM DEBT - Less current maturities	25,176,918	26,877,509
DEFERRED LIABILITIES:		
Compensation	170,294	173,535
Income taxes	528,273	2,298,863
Pension	613,023	881,761
Total deferred liabilities	1,311,590	3,354,159
Total liabilities	39,104,224	36,963,398
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, Series A, no par value, $.06 stated value; none outstanding 1999 and 1998		
Common stock, no par value; 10,000,000 shares authorized; outstanding 1999 - 4,489,215 shares; 1998 - 5,172,815 shares	35,284,159	39,560,343
Retained earnings	14,944,971	20,074,728
Total shareholders' equity	50,229,130	59,635,071
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 89,333,354	$ 96,598,469

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	1999	1998	1997
NET SALES	$ 98,099,184	$ 88,699,413	$ 95,026,786
COST OF GOODS SOLD	83,256,768	68,185,041	69,300,071
GROSS MARGIN	14,842,416	20,514,372	25,726,715
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	20,020,357	17,208,211	16,416,341
INCOME (LOSS) FROM OPERATIONS	(5,177,941)	3,306,161	9,310,374
OTHER INCOME AND (EXPENSES):			
Interest expense	(2,415,682)	(1,734,611)	(2,552,732)
Other - net	236,287	691,073	108,688
Total other - net	(2,179,395)	(1,043,538)	(2,444,044)
INCOME (LOSS) BEFORE INCOME TAXES	(7,357,336)	2,262,623	6,866,330
INCOME TAX EXPENSE (BENEFIT)	(2,227,579)	426	2,105,000
NET INCOME (LOSS)	$ (5,129,757)	$ 2,262,197	$ 4,761,330
NET INCOME (LOSS) PER COMMON SHARE:			
Basic	$ (1.09)	$ 0.42	$ 1.16
Diluted	$ (1.09)	$ 0.41	$ 1.10
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	4,710,039	5,425,026	4,087,682
Diluted	4,710,039	5,526,863	4,329,907

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Treasury Stock	Retained Earnings	Total Shareholders' Equity
BALANCE, DECEMBER 31, 1996	$ 6,000	$14,543,947	$(1,226,059)	$13,051,201	$26,375,089
YEAR ENDED DECEMBER 31, 1997:					
Net income				4,761,330	4,761,330
Shares issued (1,570,000) pursuant to public offering, net of costs of $453,483		26,895,917			26,895,917
Stock options exercised		1,020,794			1,020,794
Tax benefit related to stock options		143,400			143,400
Preferred stock converted to common stock	(600)	600			
BALANCE, DECEMBER 31, 1997	5,400	42,604,658	(1,226,059)	17,812,531	59,196,530
YEAR ENDED DECEMBER 31, 1998:					
Net income				2,262,197	2,262,197
Treasury stock retired (124,095 shares)		(1,226,059)	1,226,059		
Treasury stock purchased and retired (292,600 shares)		(2,038,118)			(2,038,118)
Stock options exercised		214,462			214,462
Preferred stock converted to common stock	(5,400)	5,400			
BALANCE, DECEMBER 31, 1998	0	39,560,343	0	20,074,728	59,635,071
YEAR ENDED DECEMBER 31, 1999:					
Net loss				(5,129,757)	(5,129,757)
Treasury stock purchased and retired (685,100 shares)		(4,285,184)			(4,285,184)
Stock options exercised		9,000			9,000
BALANCE, DECEMBER 31, 1999	$ 0	$35,284,159	$ 0	$14,944,971	$50,229,130

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (5,129,757)	$ 2,262,197	$ 4,761,330
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,836,586	4,226,313	2,925,932
Deferred income taxes	(1,052,222)	(11,293)	156,247
Deferred compensation and pension - net	254,769	138,485	(13,227)
Loss on sale of fixed assets	9,048	837	1,213
Change in assets and liabilities:			
Receivables	(6,690,028)	1,014,968	(5,176,709)
Inventories	14,536,944	(14,215,775)	(7,504,334)
Other current assets	(378,992)	(21,515)	(143,921)
Other assets	(749,720)	58,811	78,951
Accounts payable	162,705	(506,171)	(711,792)
Accrued liabilities	277,628	(854,432)	(740,704)
Net cash provided by (used in) operating activities	5,076,961	(7,907,575)	(6,367,014)
CASH FLOWS FROM INVESTING ACTIVITIES - Purchase of fixed assets	(9,675,010)	(6,817,108)	(4,462,236)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	57,527,000	79,835,000	77,050,000
Payments on long-term debt	(53,555,319)	(64,610,668)	(86,073,615)
Proceeds from issuance of stock (net of offering expenses)			26,895,917
Purchase of treasury stock	(4,285,184)	(2,038,118)	
Proceeds from exercise of stock options, including related tax benefit	9,000	214,462	1,164,194
Net cash provided by (used in) financing activities	(304,503)	13,400,676	19,036,496
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,902,552)	(1,324,007)	8,207,246
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,232,876	8,556,883	349,637
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,330,324	$ 7,232,876	$ 8,556,883

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Rocky Shoes & Boots, Inc. ("Rocky Inc.") and its wholly-owned subsidiaries, Lifestyle Footwear, Inc. ("Lifestyle") and Five Star Enterprises Ltd. ("Five Star"), collectively referred to as the "Company." All significant intercompany transactions have been eliminated.

Business Activity - The Company designs, manufactures, and markets high quality men's and women's footwear primarily under the registered trademark, ROCKY®. The Company maintains a nationwide network of independent and Company sales representatives who sell the Company's products primarily through independent shoe, sporting goods, specialty, and uniform stores and catalogs throughout the United States. The Company did not have any customers that accounted for more than 10% of consolidated net sales in 1999, 1998 and 1997.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents - The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company's cash and cash equivalents are primarily held in four banks.

Trade Receivables - Trade receivables are presented net of the related allowance for doubtful accounts of approximately $715,000 and $606,000 at December 31, 1999 and 1998, respectively.

Concentration of Credit Risk - The Company's exposure to credit risk is impacted by the economic climate affecting its industry. The Company manages this risk by performing ongoing credit evaluations of its customers and maintains reserves for potential uncollectible accounts.

Supplier and Labor Concentrations - The Company purchases raw materials from a number of domestic and foreign sources. The Company currently buys all of its waterproof fabric, a component used in a significant portion of the Company's shoes and boots, from one supplier (GORE-TEX®). The Company has had a relationship with this supplier for over 18 years and has no reason to believe that such relationship will not continue.

A significant portion of the Company's shoes and boots are produced in the Company's Dominican Republic operations. The Company has conducted operations in the Dominican Republic since 1987 and is not aware of any governmental or economic restrictions that would alter its current operations.

Inventories - Inventories are valued at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market. Reserves are established for inventories when the net realizable value (NRV) is deemed to be less than its cost based on management's periodic estimates of NRV (see Notes 10).

Fixed Assets - The Company records fixed assets at historical cost and generally utilizes the straight-line method of computing depreciation for financial reporting purposes over the estimated useful lives of the assets as follows:

	Years
Building and improvements	5-40
Machinery and equipment	8-12
Furniture and fixtures	8-12
Lasts, dies, and patterns	8-12

Effective January 1, 1998, the Company changed the estimated useful life of certain computer software costs. This change decreased 1998 net income by $447,600, or $.08 per diluted share. This change was made to better reflect how the asset is expected to be used over time and to provide a better matching of revenues and expenses.

Management periodically evaluates the future economic benefit of its long-term assets when events or circumstances indicate potential recoverability concerns. This evaluation is based on consideration of expected future undiscounted cash flows and other operating factors. Carrying amounts are adjusted appropriately when determined to have been impaired.

For income tax purposes, the Company generally computes depreciation utilizing accelerated methods.

Advertising - The Company expenses advertising costs as incurred. Advertising expense was $2,997,462, $2,323,372 and $1,334,034 for 1999, 1998 and 1997, respectively.

Revenue Recognition - Revenue and related cost of goods sold are recognized at the time footwear product is shipped to the customer and is recorded net of estimated sales discounts and returns based upon historical trends. All sales are considered final upon shipment.

Per Share Information - Basic net income per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed similarly but includes the dilutive effect of the Company's Series A preferred stock and stock options. A reconciliation of the shares used in the basic and diluted income per share computations is as follows:

	Year Ended December 31,		
	1999	1998	1997
Basic - Weighted average shares outstanding	4,710,039	5,425,026	4,087,682
Dilutive securities:			
Preferred stock		7,365	85,549
Stock options		94,472	156,676
Diluted - Weighted average shares outstanding	4,710,039	5,526,863	4,329,907

No adjustments to net income were required for purposes of computing diluted per share amounts. In 1999, stock options of 30,236 were not used to compute diluted weighted average common shares outstanding since the loss the Company incurred in 1999 makes these stock options anti-dilutive.

Recently Issued Financial Accounting Standards - In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". In June, 1999, the FASB issued Statement of Financial Accounting Standards No. 137 (SFAS 137). SFAS 133 now is required to be adopted for the Company's 2001 annual consolidated financial statements. The Company has not yet determined what, if any, impact the adoption of this standard will have on its consolidated financial statements.

Segment Information - The Company is managed in one operating segment, footwear. Within their one operating segment, the Company has identified three product groups; Rugged Outdoor, Occupational, and Handsewn Casual. The following is supplemental information on net sales by product group:

	Rugged Outdoor	Occupational	Handsewn Casual and Other	Total
1999	$ 51,029,943	$ 29,847,018	$ 17,222,223	$ 98,099,184
1998	47,640,000	23,847,520	17,211,893	88,699,413
1997	58,661,798	27,232,590	9,132,398	95,026,786

2. INVENTORIES

Inventories are comprised of the following:

	December 31,	
	1999	1998
Raw materials	$ 4,133,520	$ 7,917,557
Work-in-process	2,128,738	5,184,591
Finished goods	24,110,469	31,882,217
Factory outlet finished goods	2,645,340	2,475,646
Less reserve for obsolescence or lower of cost or market (see Note 10)	(445,000)	(350,000)
Total	$32,573,067	$47,110,011

3. FIXED ASSETS

Fixed assets are comprised of the following:

	December 31,	
	1999	1998
Land	$ 557,071	$ 544,816
Building and improvements	6,314,768	6,346,976
Machinery and equipment	21,765,027	19,622,714
Furniture and fixtures	3,479,787	2,959,471
Lasts, dies and patterns	5,509,926	5,157,100
Construction work-in-progress	7,385,522	2,715,223
Total	45,012,101	37,346,300
Less - accumulated depreciation	(18,879,879)	(16,842,446)
Net fixed assets	$26,132,222	$ 20,503,854

4. LONG-TERM DEBT

Long-term debt is comprised of the following:

	December 31,	
	1999	1998
Bank - revolving credit facility	$31,900,000	$27,000,000
Equipment and other obligations	1,687,898	2,495,129
Real estate obligation	56,875	70,741
Other	132,042	239,264
Total long-term debt	33,776,815	29,805,134
Less current maturities	8,599,897	2,927,625
Net long-term debt	$25,176,918	$26,877,509

The Company has a loan agreement with a bank, as amended on April 18, 1997, May 29, 1998, April 1, 1999 and July 23, 1999 with maximum borrowings that range from $25,000,000 (from January 28 to March 31, annually), to $42,000,000 (from April 1 to January 27, annually). Interest on the revolving credit facility is payable monthly at the bank's LIBOR rate (plus 100 to 190 basis points) or prime, and the principal is due May 31, 2003. The weighted average interest rate for the outstanding balance at December 31, 1999 was 6.01% (6.63% at December 31, 1998). At December 31, 1999, the Company had no retained earnings available for distribution and $6,900,000 was classified as current based on the scheduled reduction in the maximum borrowings that occurred on January 28, 2000.

Any amounts borrowed under the agreement are secured by the accounts receivable, inventories, and equipment of the Company. The bank debt agreement contains certain restrictive covenants which, among others, require the Company to maintain a certain level of tangible net worth, as defined, certain current and debt service coverage ratios, and restrict the amount of capital expenditures. At December 31, 1999, the Company did not comply with certain of the bank covenant requirements. In March 2000, the Company obtained a waiver from the bank with respect to such events of noncompliance. In addition, the Company and the bank have had discussions with respect to the possible modification and adjustment of certain terms of the agreement. The Company and the banks expect these discussions to continue in the near future. Based on the Company's projected results of operations for 2000 and the possible modification of certain covenants, management believes it is probable that the Company will be in compliance with the covenants in 2000.

Equipment and other obligations at December 31, 1999 bear interest at fixed and variable rates ranging from 3% to 8.5% and are payable in monthly installments to 2002. The obligations are secured by equipment and are subject to the security agreement and covenants applicable to the revolving credit facility.

The real estate obligation at December 31, 1999 bears interest at a variable rate of 7.375% and is payable in monthly installments through 2003. The obligation is secured by real estate and is subject to the security agreement and covenants applicable to the revolving credit facility.

In 1998 the Company entered into two interest rate swap agreements with a major bank for a total notional amount of $25,000,000 with average maturities of seven years to reduce the impact of changes in interest rates on its variable rate long-term debt. The Company is exposed to credit loss only in the event of nonperformance by the bank on the interest rate swap agreements, which the Company does not anticipate. One interest rate swap agreement for a notional amount of $10,000,000 was terminated in 1999 and resulted in a gain of $103,000. The fair value of the remaining $15,000,000 interest rate swap at December 31, 1999 is an unrealized gain of $450,926, that represents the amount at which it could be settled, based on an estimate obtained from a dealer. The fair value of the interest rate swaps at December 31, 1998 was an unrealized loss of $1,105,676.

At December 31, 1999 essentially all trade accounts receivable, inventories and property are held as collateral for the Company's long-term debt.

Long-term debt matures as follows for the years ended December 31:

2000	$ 8,599,897
2001	149,871
2002	18,374
2003	25,008,673
Total	$33,776,815

The estimated fair value of the Company's long-term obligations approximated their carrying amount at December 31, 1999 and 1998, based on current market prices for the same or similar issues or on debt available to the Company with similar rates and maturities.

During the first quarter of 2000, the Company completed mortgage financing with GE Capital for three of its facilities totaling $6,300,000, with total monthly payments of $63,100 (including principal and 8.275% interest) to 2014. The proceeds of the financing were used to pay down borrowings under the revolving credit facility.

5. OPERATING LEASES

The Company leases certain machinery and manufacturing facilities under operating leases that generally provide for renewal options. The Company incurred approximately $1,069,000, $840,000, $643,000 in rent expense under operating lease arrangements for 1999, 1998, and 1997, respectively.

Included in total rent expense above are monthly payments of $7,000 for 1999 and 1998 and $6,000 for 1997, respectively, for the Company's Ohio manufacturing facility leased from an entity in which the owners are also shareholders of the Company.

Future minimum lease payments under non-cancelable operating leases are as follows for the years ended December 31:

Year	Amount
2000	$ 358,000
2001	238,000
2002	153,000
2003	30,000
Total	$ 779,000

6. INCOME TAXES

Rocky Inc. and its wholly-owned subsidiary doing business in Puerto Rico, Lifestyle, are subject to U.S. Federal income taxes; however, the Company's income earned in Puerto Rico is allowed favorable tax treatment under Section 936 of the Internal Revenue Code if conditions as defined therein are met. Five Star is incorporated in the Cayman Islands and conducts its operations in a "free trade zone" in the Dominican Republic and, accordingly, is currently not subject to Cayman Islands or Dominican Republic income taxes. Thus, the Company is not subject to foreign income taxes.

At December 31, 1999, a provision has not been made for U.S. taxes on the accumulated undistributed earnings of Five Star through December 31, 1999 of approximately $5,109,000 that would become payable upon repatriation to the United States. It is the intention of the Company to reinvest all such earnings of Five Star in operations and facilities outside of the United States. In addition, the Company has not provided any U.S. tollgate taxes on approximately $2,257,000 of accumulated undistributed earnings of Lifestyle prior to the fiscal year ended June 30, 1994, that would be payable if such earnings were repatriated to the United States. It is the intention of the Company to reinvest all such earnings of Lifestyle. If the Five Star and Lifestyle undistributed earnings were distributed to the Company in the form of dividends, the related taxes on such distributions would be approximately $1,737,000 and $226,000, respectively.

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Accordingly, deferred income taxes have been provided for the temporary differences between the financial reporting and the income tax basis of the Company's assets and liabilities by applying enacted statutory tax rates applicable to future years to the basis differences.

Income taxes (benefits) are summarized as follows:

	Year Ended December 31,		
	1999	1998	1997
Federal:			
Current	$ (1,273,033)	$ (76,294)	$ 1,556,631
Deferred	(1,007,542)	10,357	146,143
Total Federal	(2,280,575)	(65,937)	1,702,774
State and local:			
Current	97,676	88,013	392,122
Deferred	(44,680)	(21,650)	10,104
Total state and local	52,996	66,363	402,226
Total	$ (2,227,579)	$ 426	$ 2,105,000

A reconciliation of recorded Federal income tax expense (benefit) to the expected expense (benefit) computed by applying the Federal statutory rate of 34% for all periods to income (loss) before income taxes follows:

	Year Ended December 31,		
	1999	1998	1997
Expected expense (benefit) at statutory rate	$ (2,501,494)	$ 769,286	$ 2,334,552
Decrease in income taxes resulting from:			
Exempt (income) loss from operations in Puerto Rico, net of tollgate taxes	563,663	(802,791)	(476,493)
Exempt (income) loss from Dominican Republic operations	(625,978)		
State and local income taxes	(18,019)	(22,563)	(136,757)
Alternative minimum tax	118,829		
Other - net	182,424	(9,869)	(18,528)
Total	$ (2,280,575)	$ (65,937)	$ 1,702,774

Deferred income taxes recorded in the consolidated balance sheets at December 31, 1999 and 1998 consist of the following:

	December 31,	
	1999	1998
Deferred tax assets:		
State and local income taxes		$ 47,546
Alternative minimum tax carryforward	$ 118,829	
Asset valuation allowances	549,265	454,494
Pension and deferred compensation	168,755	197,535
Net operating loss carryforwards	1,854,661	215,445
Inventories	309,066	1,131,231
Total deferred tax assets	3,000,576	2,046,251
Deferred tax liabilities:		
Fixed assets	(1,630,696)	(1,499,613)
Prepaid assets	(40,048)	(34,173)
Tax on Five Star earnings	(64,339)	(64,339)
Tollgate tax on Lifestyle earnings	(776,435)	(1,011,290)
Total deferred tax liabilities	(2,511,518)	(2,609,415)
Net deferred tax asset (liability)	$ 489,058	$ (563,164)

At December 31, 1999, the Company has approximately $4,810,000 of net operating loss carryforwards for Federal income tax purposes. There are annual utilization limitations over the next two years for $425,000 of the net operating loss carryforwards. The remaining net operating loss carryforward expires in 2019.

7. RETIREMENT PLANS

The Company sponsors separate noncontributory defined benefit pension plans covering the union and non-union workers of the Company's Ohio and Puerto Rico operations. Benefits under the union plan are primarily based upon negotiated rates and years of service. Benefits under the non-union plan are based upon years of service and highest compensation levels as defined. Annually, the Company contributes to the plans at least the minimum amount required by regulation.

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

	Year Ended December 31,		
	1999	1998	1997
Service cost	$ 323,726	$ 273,091	$ 215,263
Interest	356,194	317,725	284,420
Actual loss (return) on plan assets	(404,283)	42,745	(953,212)
Amortization and deferral	152,373	(327,398)	781,589
Net pension cost	$ 428,010	$ 306,163	$ 328,060

The funded status of the Company's plans and reconciliation of accrued pension cost at December 31, 1999 and 1998 are presented below (information with respect to benefit obligations and plan assets as of September 30 is):

	December 31,	
	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of the year	$ 5,463,914	$ 4,486,537
Service cost	323,726	273,091
Interest cost	356,194	317,725
Actuarial gain	(433,965)	186,659
Amendments		233,278
Exchange (gain)/loss	(93,418)	130,596
Benefits paid	(193,633)	(163,972)
Benefit obligation at end of year	$ 5,422,818	$ 5,463,914
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 3,906,376	$ 3,897,093
Actual return on plan assets	404,283	(42,745)
Employer contribution	270,000	216,000
Benefits paid	(193,633)	(163,972)
Fair value of plan assets at end of year	$ 4,387,026	$ 3,906,376
Funded status (deficit)	$ (1,035,792)	$ (1,557,538)
Remaining unrecognized benefit obligation existing at transition	260,255	288,146
Unrecognized prior service costs due to plan amendments	688,260	748,678
Unrecognized net loss (gain)	(168,226)	423,221
Adjustment required to recognize minimum liability	(357,520)	(884,268)
Additional contributions (September 30-December31)		100,000
Accrued pension cost	$ (613,023)	$ (881,761)

The assets of the plans consist primarily of common stocks, bonds, and cash equivalents. The assets of the plans include 61,000 and 43,400 shares of the Company's common stock with a market value of $468,000 and $254,975 at September 30, 1999 and 1998, respectively. The Company's unrecognized benefit obligations existing at the date of transition for the union and non-union plans are being amortized over 23 and 21 years, respectively. Actuarial assumptions used in the accounting for the plans were as follows:

	December 31,	
	1999	**1998**
Discount rate	7.25%	6.75 %
Average rate of increase in compensation levels (non-union only)	3.0%	3.0 %
Expected long-term rate of return on plan assets	9.0%	9.0 %

SFAS No. 87, "Employers' Accounting for Pensions," generally requires the Company to recognize a minimum liability in instances in which a plan's accumulated benefit obligation exceeds the fair value of plan assets. In accordance with the Statement, the Company has recorded in the accompanying financial statements a non-current intangible asset of $357,520, and $884,268 as of December 31, 1999 and 1998, respectively.

The Company also sponsors a 401(k) savings plan for substantially all of its union and non-union employees. The Company only matches contributions for non-union employees. Funding for non-union employees electing to contribute a percentage of their compensation is matched by the Company, subject to certain limitations. Company contributions to the 401(k) savings plan were $14,504 for 1998. No Company contribution was made for 1999 and 1997.

8. CAPITAL STOCK

The Company has authorized 250,000 shares of voting preferred stock without par value. No shares are issued or outstanding. Also, the Company has authorized 250,000 shares of non-voting preferred stock without par value. Of these, 125,000 shares have been designated Series A non-voting convertible preferred stock with a stated value of $.06 per share, of which no shares are issued and none are outstanding at December 31, 1999 and 1998, respectively. In accordance with its terms, all of the outstanding Series A preferred stock was converted into common shares of the Company on a one for one basis on February 3, 1998.

In November 1997, the Company's Board of Directors adopted a Rights Agreement which provides for one preferred share purchase right to be associated with each share of the Company's outstanding common stock. Shareholders exercising these rights would become entitled to purchase shares of Series B Junior Participating Cumulative Preferred Stock. The rights may be exercised 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 the Company's 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 the common stock. Such exercise may ultimately entitle the holders of the rights to purchase for $80 per right, common stock of the Company having a market value of $160. The person or groups effecting such 20 percent acquisition or undertaking such

tender offer will not be entitled to exercise any rights. These rights expire November 2007 unless earlier redeemed by the Company under circumstances permitted by the Rights Agreement.

The Company reacquired 124,095 and 292,600 shares of common stock in 1994 and 1998 for $1,226,059 and $2,038,118, respectively. In December 1998, the Board of Directors approved the retirement of all shares held in treasury (total of 416,695 shares). During 1998 and 1999, the Company purchased and retired 292,600 and 685,100 shares for $2,038,118 and $4,285,184, respectively, under its share repurchase program. At December 31, 1999, the Company's Board of Directors has not authorized any additional share repurchase.

The Company adopted a Stock Option Plan in 1992 which provides for the issuance of options to purchase up to 400,000 common shares of the Company. On October 11, 1995, the Company adopted the 1995 Stock Option Plan which provides for the issuance of options to purchase up to an additional 400,000 common shares of the Company. In May 1998, the Company adopted the Amended and Restated 1995 Stock Option Plan which provides for the issuance of options to purchase up to an additional 500,000 common shares of the Company. All employees, officers, directors, consultants and advisors providing services to the Company are eligible to receive options under the Plans. In addition, the Plans provide for the annual issuance of options to purchase 5,000 shares of common stock to each non-employee director of the Company. The plans generally provide for grants with the exercise price equal to fair value on the date of grant, graduated vesting periods of up to 5 years, and lives not exceeding 10 years. The following summarizes all stock option transactions from January 1, 1997 through December 31, 1999:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 1997	447,900	$ 8.74
Issued	85,500	9.37
Exercised	(114,120)	8.94
Forfeited	(11,320)	8.28
Outstanding at December 31, 1997	407,960	8.82
Issued	210,000	14.44
Exercised	(22,890)	9.37
Forfeited	(34,660)	9.47
Outstanding at December 31, 1998	560,410	10.86
Issued	247,000	5.82
Exercised	(1,500)	6.00
Forfeited	(112,160)	10.61
Outstanding at December 31, 1999	693,750	$ 9.12
Options exercisable at December 31:		
1997	235,140	$ 9.24
1998	359,785	$ 10.01
1999	386,035	$ 9.27

The following table summarizes information about options outstanding at December 31, 1999:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$5.375 - $6.75	295,250	6.5	$ 5.87	120,000	$ 5.88
$7.50 - $8.875	125,750	4.2	$ 8.55	81,125	$ 8.57
$9.50 - $10.125	122,250	1.8	$ 9.81	123,410	$ 9.82
$13.125 - $20.00	150,500	5.8	$ 15.42	61,500	$ 15.69
Total	693,750	5.1	$ 9.12	386,035	$ 9.27

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation costs for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have resulted in the amounts as reported below. In determining the estimated fair value of each option granted on the date of grant the Company uses the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999, 1998, and 1997, respectively; dividend yield of 0%; expected volatility of 41%, 48% and 40%; risk-free interest rates of 6.66%, 5.29%, and 6.40%; and expected life of 6 years. The weighted average grant date fair value of options issued during 1999, 1998, and 1997 was $3.40, $8.55, and $4.62, respectively.

	Year Ended December 31,		
	1999	1998	1997
Net income (loss):			
As reported	$ (5,129,757)	$ 2,262,197	$ 4,761,330
Pro forma	$ (5,201,230)	$ 1,301,976	$ 4,498,370
Income (loss) per share:			
As reported:			
Basic	$ (1.09)	$ 0.42	$ 1.16
Diluted	$ (1.09)	$ 0.41	$ 1.10
Pro forma:			
Basic	$ (1.10)	$ 0.24	$ 1.10
Diluted	$ (1.10)	$ 0.24	$ 1.04

The pro forma amounts are not representative of the effects on reported net income for future years.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and Federal, state and local income taxes was as follows:

	Year Ended December 31,		
	1999	1998	1997
Interest	$ 2,547,104	$ 1,756,078	$ 2,619,374
Federal, state and local income taxes - net of refunds	$ 2,370,588	$ 1,210,445	$ 2,306,150

The Company entered into no capital lease arrangements during the year ended December 31, 1999 and 1998. During the years ended December 31, 1997, the Company entered into capital lease arrangements for certain equipment which had a present value of $474,743. Accounts payable at December 31, 1999, 1998 and 1997 include a total of $189,659, $418,278 and $133,017, respectively, relating to the purchase of fixed assets.

10. FOURTH QUARTER RESULTS (UNAUDITED)

For the fourth quarter of 1999, the Company incurred a net loss of $7.2 million or $1.59 loss per basic and diluted share compared to a loss of $1.1 million or $0.21 loss per basic and diluted share in the fourth quarter of 1998. The primary reason for the loss in the fourth quarter and the year is due to the Company's inventory reduction program. During 1999 (principally in the fourth quarter), the Company reduced its inventory to $32.6 million from $47.1 million at December 31, 1998. As a result of this program, the Company had a negative gross margin of $3.1 million in the fourth quarter of 1999, primarily due to sales agreements the Company entered into in December 1999 resulting in sales of approximately $3.8 million with a negative gross margin of $2.3 million. In addition, the Company recorded a reserve to the lower of cost or market of $445,000 at December 31, 1999 related to finished goods inventory that was sold in the first quarter of 2000 at a price below cost.

Also contributing to the loss in the fourth quarter of 1999 were increased selling, general, and administrative expenses of $1.6 million compared to the fourth quarter of 1998. This was principally due to substantially higher costs to temporarily operate four warehouse facilities, additional shipping costs while the Company's new finished goods distribution center was being constructed, and expanded use of co-op advertising.

* * * * * *

MARKET MAKERS

The following broker-dealer firms are market makers in the Company's Common Stock:

Herzog, Heine, Geduld, Inc.
Knight Securities, Inc.
McDonald & Company Securities, Inc.
Mitchell Securities Corporation of Oregon
Nash, Weiss & Co.
Sherwood Securities Corp.
Spear, Leeds & Kellogg Capital Markets

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on May 24, 2000, at 9:30 a.m. at the Capital Club, 41 South High Street, Columbus, Ohio.

BOARD OF DIRECTORS

Mike Brooks
Chairman of the Board,
President and Chief Executive Officer

Leonard L. Brown
President
Leonard L. Brown, Inc.

David Fraedrich
Executive Vice President, Treasurer
and Chief Financial Officer

Stanley I. Kravetz
President
The Kravetz Group

Curtis A. Loveland
Secretary, Partner,
Porter, Wright, Morris &
Arthur LLP

Robert D. Rockey
Chairman and Chief Executive Officer
Duck Head Apparel Company, Inc.

Robert D. Stix
Former Vice President and General
Manager of Operations

James L. Stewart
Proprietor
Rising Wolf Ranch, Inc.

OFFICERS

Mike Brooks
Chairman of the Board,
President and
Chief Executive Officer

David Fraedrich
Executive Vice President,
Treasurer and
Chief Financial Officer

John E. Friday
Executive Vice President,
Sales

Dennis Disser
Vice President,
Marketing

Corporate Offices

39 E. Canal Street
Nelsonville, Ohio 45764
(740) 753-1951

Stock Listing

NASDAQ National Market
Symbol: RCKY

Internet
Corporate and Investor information on Rocky Shoes & Boots, Inc. can be accessed at: http://www.rockyboots.com

Independent Accountants
Deloitte & Touche LLP
Columbus, Ohio

Legal Counsel
Porter, Wright, Morris & Arthur LLP
Columbus, Ohio

Transfer Agent and Registrar
Communications regarding changes of address, transfer of shares, and lost certificates should be directed to the Company's stock transfer and registrar:

Fifth Third Bank
Corporate Trust Services
38 Fountain Square Plaza
Cincinnati, Ohio 45263
(800) 837-2755

Form 10-K
Copies of the signatures, exhibit index and exhibits contained therein as filed with the Securities and Exchange Commission are available without charge upon written request to:

David Fraedrich
Executive Vice President
Rocky Shoes & Boots, Inc.
39 E. Canal Street
Nelsonville, Ohio 45764

Rocky Shoes & Boots, Inc.

39 East Canal Street • Nelsonville, Ohio 45764 • Phone (740) 753-1951 • Fax (740) 753-4024
http://www.rockyboots.com