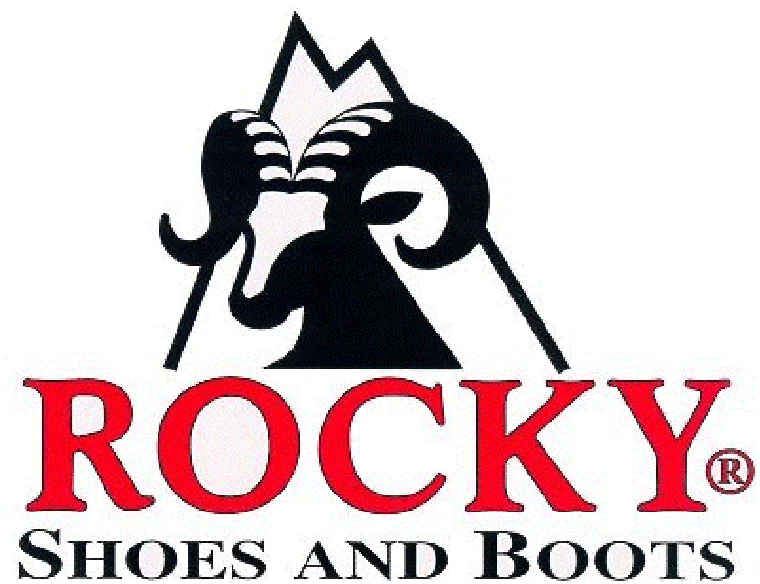

2000
Annual Report

Rocky Shoes & Boots, Inc. designs, develops, manufactures and markets premium quality rugged outdoor, occupational and casual footwear.

SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except for per share data)

	Years Ended				
	12/31/00	12/31/99	12/31/98	12/31/97	12/31/96
Income Statement Data					
Net sales	$102,451	$98,099	$88,699	$95,027	$73,148
Net income (loss)	$96	($5,130)	$2,262	$4,761	$2,806
Balance Sheet Data					
Total assets	$86,051	$89,333	$96,598	$80,955	$58,090
Long term debt, less current maturities	26,445	25,177	26,878	13,407	19,520
Shareholders' equity	50,326	50,229	59,635	59,197	26,375
Per Share					
Net income (loss):					
Basic	$0.02	($1.09)	$0.42	$1.16	$0.77
Diluted	$0.02	($1.09)	$0.41	$1.10	$0.74
Weighted average number of shares outstanding:					
Basic	4,489	4,710	5,425	4,088	3,666
Diluted	4,493	4,710	5,527	4,330	3,776

To Our Shareholders,

We were pleased to improve sales and return to modest profitability for the year 2000. Throughout this past year we focused on ways to improve our cost structure and position the Company for improved performance. The most significant achievements resulted from targeted initiatives to reduce our costs. It is anticipated that additional progress will be realized from these efforts during 2001.

We moved a substantial portion of our manufacturing from the Nelsonville, Ohio factory to facilities in Puerto Rico and the Dominican Republic. This was a difficult decision, but necessary in order to remain competitive with our expanding line of ROCKY® branded footwear. Our manufacturing plans are centered on maximizing production at our factories and utilizing sourcing to achieve specific growth and product pricing objectives.

Seven years ago we decided to begin sourcing footwear to leverage the production capabilities of our factories and to accommodate anticipated growth. The requirement at that time is the same today; that is, quality standards must be identical to footwear produced in our own factories. Sourcing enables us to be more responsive to new opportunities and maintain competitive price points. Last year, 36% of our net sales were derived from sourcing. We anticipate the percentage of sourced footwear will continue to increase in 2001. This strategic manufacturing approach allows us to balance internal manufacturing capabilities with our growth plans.

Our confidence in the manufacturing capabilities at our Caribbean factories was an important factor leading to submission of a bid to the U.S. Government last year for production of Intermediate Cold Wet boots. We were awarded a contract earlier this year to produce ROCKY® Gore-Tex® boots. Initial shipments are scheduled to begin in second quarter 2001 and are expected to exceed the annual minimum of $1.6 million. This contract is for one year with an option to extend the agreement for an additional twelve months.

Cost control programs were also implemented in other areas of our business this past year. We will continue to seek opportunities to realize cost savings which individually may not be large but in the aggregate contribute to improved profitability. These efforts are part of a company-wide commitment to achieve sustained growth and profitability.

Rugged outdoor footwear remains our largest category of sales. This category includes our extensive line of hunting and hiking boots, rubber products, and the new Wild Wolf™ by ROCKY® styles. We are the leader in rugged out door footwear and reinforced that position last year through the introduction of Scent Control System™ footwear which includes 14 styles, and through increased sales of rubber products. Our launch of the Scent Control System™ line was the most extensive in the Company's 69-year history.

Initial response to Wild Wolf™ by ROCKY® exceeded our expectations. This footwear was sold in four styles in approximately 900 Wal-Mart stores last fall. Along with Wal-Mart, we are pleased with the progress to date, which has resulted in the introduction of four new styles of Wild Wolf™ by ROCKY® in Wal-Mart this spring. Importantly, these sales occurred during first quarter 2001, which is historically our weakest quarter of the year due to seasonal factors. These positive developments are especially noteworthy because they represent our entry into a new channel, mass merchandising, with ROCKY® branded footwear.

Occupational footwear sales continued to be a substantial part of our business in the year 2000. Introduction of the ROCKY® TMC™ styles last year was positive. These styles offer flexibility and exceptional comfort with a unique foot bed system. This year-round business is stable and we are expanding our line of occupational footwear to increase our emphasis on work boots.

Casual footwear sales declined during this past year in response to the Company's reduced emphasis on this category. We have not retreated from the casual category; rather, we have determined that while penetration of large, national accounts and specialty retail stores remains feasible, it requires too much time and resources to achieve a satisfactory percentage of our total sales. Therefore, we continue to offer casual footwear through our catalogues and, importantly, they are part of the revitalized sales program with all of our customers.

The past fall and winter seasons were generally colder and more traditional than the past several years. As a result, sell-through at retail was strong and they are motivated to replenish their inventory with new merchandise. Nonetheless, consumer confidence has been affected in recent months in response to a generally weaker economy. If this situation becomes prolonged, then it could affect our business during our peak period of August through December. We are actively following economic conditions, closely monitoring production levels and inventory quantities, staying in close contact with our customers, and will respond appropriately to future changes.

The finished goods distribution facility, which became fully operational in first quarter 2000, has enabled us to manage our inventory much more effectively. We are pleased with its initial performance and the progress that has been achieved during the past 12 months. Inventory decreased to $32 million at December 31, 2000, a $500,000 reduction from the same date a year ago with a $4.4 million increase in net sales in 2000 versus 1999. Management believes that the inventory levels at December 31, 2000, and currently, are in line with anticipated 2001 sales in each footwear category.

We are encouraged, but not satisfied with our progress. This message has also been communicated directly to the management team. All of us know that we can do better and we are working diligently to realize our financial targets for 2001, which specifically emphasize increased profitability. The changes we have made should improve production efficiencies and combined with ongoing cost reduction efforts will help us achieve our objectives.

Sincerely,

Mike Brooks
Chairman, President
and Chief Executive Officer
March 30, 2001

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, 2000

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 $18,069,310 on March 16, 2001.

There were 4,489,215 shares of the Registrant's Common Stock outstanding on March 16, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2001 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 Moca, 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, and the balance of the footwear is sourced from factories in China. 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 breathable fabric, CORDURA nylon fabric and soling materials. The Company's footwear is distributed nationwide and in Canada from the Company's finished goods distribution facility located near Logan, Ohio. The Company stores finished goods in this facility until they are used to fill an order. If the product ordered is in inventory, it can be shipped to customers within two days of the order.

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 in 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 to also leverage the ROCKY brand into new markets. This strategy is pursued 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 innovative products in each of its footwear market segments. In Fiscal 2000, the Company introduced an extensive line of scent suppressant footwear featuring the ROCKY® Scent Control System™ as well as ROCKY® TMC Series of occupational 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 manufacturing employees' compensation is based on the level of product quality of their work groups.

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 brand's strength, the Company has reformulated its advertising strategy by shifting the focus from the retail trade directly to the consumer. A key component of this new strategy includes advertising through cost-effective cable broadcasts to 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 ROCKY, thereby increasing demand for its products at higher retail prices.

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

Utilize Exclusive Rocky-Focused Sales Force. The Company has historically sold its footwear through manufacturers' representatives who carried ROCKY brand products as well as other non-competing products. Late in 1995, the Company began replacing its manufacturers' representatives with exclusive sales representatives who sell only ROCKY brand products. This was implemented in an effort to ensure full representation of its complete product line and consistent support of its customers. At December 31, 2000, all of the Company's sales representatives were working exclusively for the Company.

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 any of its three plants, depending on the type of construction. Those styles most technologically advanced are finished in 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, at which time the Company moved a substantial portion of its bottoming operation from its Nelsonville, Ohio facility to Puerto Rico and the Dominican Republic. During the second half of 2000, employment in its Nelsonville, Ohio manufacturing facility declined by 78 positions to 69 positions by December 31, 2000. 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 production yields. In addition, the Company believes its manufacturing process allows a quick response to changes in product demand and consumer preferences.

Expand Product Sourcing. The Company's sourced products represented approximately 36% of net sales in 2000. The Company sources products which are manufactured to its specifications from independent manufacturers in the Far East. This enables the Company to offer product for sale at price points that cannot generally be achieved with products manufactured in its own plants.

The Company can achieve higher initial gross margin on sourced footwear than is attainable on footwear manufactured in its own factories. 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. All product sourcing is planned and implemented under the direction and supervision of the Company's Director of Sourcing.

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 workers and construction workers	Retail customers of premium casual wear
SUGGESTED RETAIL PRICE RANGE	\$59 - 259	\$69 - \$179	\$69 - \$189
DISTRIBUTION CHANNELS	Sporting goods stores, outdoor specialty stores, independent retail stores and mass merchandisers	Retail uniform stores, mail order catalogs, mail order catalogs,	Independent retail stores, sporting goods stores, specialty safety stores mail order catalogs and sporting goods stores
COMPANY'S LEADING BRAND NAMES	BEAR CLAW, BEAR CLAW II, JASPER, PRO HUNTER, and WILD WOLF® by Rocky®	ELIMINATOR, ROCKY 911 SERIES, ALPHA FORCE WORKSMART, and WORKMAX	ROCKY ROCKERS and GORE TEX HANDSEWN FOOTWEAR

Rugged Outdoor Footwear. Rugged outdoor footwear is the Company's largest product line, representing $61.8 million, or 60.4%, of Fiscal 2000 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 camouflage 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, the Company's second largest product line, represented $28.0 million, or 27.3%, of Fiscal 2000 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. 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. The Company increased its emphasis of work steel toe footwear in 2000.

Casual Footwear. Sales of the Company's casual footwear were $6.2 million in Fiscal 2000, accounting for 6.0% 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 reduced its emphasis on the Casual Footwear segment in 2000. While continuing to offer high performance rugged casual footwear, the emphasis is on marketing this line through the traditional dealer base.

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 Rocky licensed products. In addition, related products from other manufacturers are sold in the stores. For 2000, net sales for factory outlet stores were $5.9 million, or 5.7% 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. Sales of other products were $0.6 million in Fiscal 2000.

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 2000	Fiscal 1999	Fiscal 1998
Rugged outdoor	60.4%	52.0%	53.7%
Occupational	27.3	30.5	26.9
Casual	6.0	9.1	9.1
Factory outlet stores	5.7	5.3	5.5
Other	0.6	3.1	4.8
	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 together 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 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 system, which significantly shortens the development period for new footwear styles.

Sales, Marketing and Advertising

The Company has developed comprehensive marketing and advertising programs to gain national exposure and create brand awareness for the ROCKY brand products in targeted markets. By creating strong brand awareness, the Company seeks to increase the general level of retail demand for its products, expand the 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: Bass Pro Shops, Inc., Cabela's, Inc., Dick's Clothing and Sporting Goods, Gander Mountain, and Wal-Mart for rugged outdoor footwear; Fecheimer Brothers Uniforms, Inc., Galls, Inc. and R & R Uniforms, Inc. for occupational footwear. No single customer accounted for more than 10% of the Company's revenues in Fiscal 2000.

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 51 exclusive sales representatives and manufacturers' representatives, operating in 30 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. Currently, 100% 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 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 within 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.

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, followed by completion of the bottoming process at any of the Company's three facilities. The most technologically advanced styles are completed in 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. The Company moved a substantial portion of its production to Puerto Rico and the Dominican Republic. During 2000 the Company reduced employment in its Nelsonville, Ohio manufacturing facility. By December 31, 2000, 78 manufacturing positions had been eliminated, leaving 69 manufacturing employees engaged in the most technologically advanced bottoming operations employed by the Company. 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 production per square foot of manufacturing space, reduces work-in-process inventory and direct labor and improves 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 finished goods distribution facility located near Logan, Ohio 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 the manufacturing employees' compensation is based on the level of product quality of their work groups.

The majority 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 fiscal 2000 accounted for approximately 36% of net sales. 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 supplied the technology and know-how to the factory to become W. L. Gore certified. The Company believes this supplier improved sourced product quality. A greater portion of the Company's products may be sourced in the future since the Company can achieve higher initial gross margins on sourced footwear. 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 employees in its China office 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 Ohio distribution center, another inspection of sourced footwear is conducted by the Director of Quality Control. 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 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, 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 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 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 conditions can have a material adverse effect on sales of the Company's products, particularly if they 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, 2000 and December 31, 1999, backlog was $6.7 and $7.7 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 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™, ROCKY ELIMINATOR™, PROHUNTER™, LONGBEARD™, RAMDRY™, and FIRSTMED™ 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. 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 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, 2000, the Company had approximately 1,167 full-time employees and 27 part-time employees. Approximately 915 of these full-time employees are in the Dominican Republic and Puerto Rico. The Company has approximately 794 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 2000 and will expire in May 2001. 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 fiscal 2001 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 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. 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 its 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 breathable 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 breathable 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 breathable 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 have a material adverse effect on 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. Possible interruptions of United Parcel Service'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.

The Company purchases leather from a number of both domestic and foreign suppliers. Due to the recent outbreak of disease in European cattle the worldwide supply of cowhide has been reduced. This situation could cause an increase in the price of leather later in 2001. The Company believes it has the ability to increase the price of its footwear in response to this situation since all of its competitors purchase from the same suppliers.

Changing Retailing Trends. 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 these 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. In fiscal 2000, to offer rugged outdoor footwear for sale in another segment of retail, the Company established the Wild Wolf® by Rocky® brand. This footwear is sold to the mass merchandise channel of distribution at lower retail prices than historically available in Rocky brand product. 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 David Sharp, Vice President-Sales & Marketing. 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. Consequently, no income taxes are provided on these cumulative earnings of approximately $5,109,000. 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.

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 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 completed this move in the fourth quarter of Fiscal 2000 resulting in a reduction of 78 positions. At December 31, 2000 the Company had 69 people engaged in manufacturing in Nelsonville, Ohio.

Concentration of Stock Ownership; Certain Corporate Governance Measures. The directors, executive officers and principal shareholders of the Company beneficially own approximately 11.7 % 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 effect 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. 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 owns, subject to a mortgage, executive offices and a factory outlet store which are located in Nelsonville, Ohio in a two-story 25,000 square foot building adjacent to the Company's 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, subject to a mortgage, 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 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. This building is used for manufacturing and houses additional outlet store retail space. The lease expires in April 2003 and is renewable for two five-year terms.

Lifestyle leases two manufacturing facilities, T-1236-0-87 which contains 44,978 sq. ft. and T-1236-1-82-00 which contains 39,581 sq. ft. in Moca, Puerto Rico. These buildings are leased from the Puerto Rico Industrial Development Company under a net non-cancelable operating lease which expires in 2009.

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 leases a 3,900 square foot retail outlet store in Westpoint, Mississippi in October of 1998, pursuant to a lease which expires October 30, 2001.

The Company owns, subject to a mortgage, a finished goods distribution facility near Logan, Ohio. The building contains 192,000 square feet and is situated on 17.9 acres of land. The finished goods distribution facility 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, 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
March 31, 2000	7.53	3.69
June 30, 2000	6.53	4.88
September 30, 2000	5.47	4.63
December 31, 2000	5.38	3.75

On March 16, 2001, the last reported sales price of the Common Stock on the Nasdaq National Market was $4.56 per share. As of March 16, 2001, 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 restricts the payment of dividends on the Common Stock. At December 31, 2000, the Company had no retained earnings available for distribution.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

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

	Five Year Financial Summary				
	12/31/00	12/31/99	12/31/98	12/31/97	12/31/96
Income Statement Data					
Net sales	$102,451	$98,099	$88,699	$95,027	$73,148
Gross margin % of sales	23.3%	15.1%	23.1%	27.1%	24.7%
Net income (loss)	$96	$(5,130)	$2,262	$4,761	$2,806
Balance Sheet Data					
Inventories	$32,035	$32,573	$47,110	$32,894	$25,390
Total assets	86,051	89,333	96,598	80,955	58,090
Working capital	50,201	48,468	67,468	55,988	30,609
Long-term debt, less current maturities	26,445	25,177	26,878	13,407	19,520
Shareholders' equity	50,326	50,229	59,635	59,197	26,375
Per Share					
Net income (loss):					
Basic	$0.02	$(1.09)	$0.42	$1.16	$0.77
Diluted	$0.02	$(1.09)	$0.41	$1.10	$0.74
Weighted average number of common shares outstanding:					
Basic	4,489	4,710	5,425	4,088	3,666
Diluted	4,493	4,710	5,527	4,330	3,776

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

References to Fiscal 2000, 1999 and 1998 are to Fiscal years of the Company ended December 31 of the respective year.

PERCENTAGE OF NET SALES

	2000	1999	1998
Net sales	100.0%	100.0%	100.0%
Costs of goods sold	76.7	84.9	76.9
Gross margin	23.3	15.1	23.1
Selling, general and administrative expenses	20.2	20.4	19.4
Income (Loss) from operations	3.1%	(5.3%)	3.7%

FISCAL 2000 COMPARED TO FISCAL 1999

Net Sales

Net sales rose 4.4% to $102,451,376 for Fiscal 2000 compared with $98,099,184 for Fiscal 1999. This increase was due to higher sales in the rugged outdoor category, especially Wild Wolf® by Rocky® footwear, initial shipments of which were made during third quarter 2000. This new line increases the availability of ROCKY branded footwear in an additional segment of the rugged outdoor category. Occupational sales for Fiscal 2000 were $1.9 million below the prior year. This is primarily due to more sales of footwear at lower price points than during the prior year. The Company reduced its emphasis on casual footwear sales during the second half of Fiscal 2000. As a result, these net sales were $2.6 million below the prior year. Average list prices for the Company's product were approximately 2% higher in Fiscal 2000 than in 1999.

Gross Margin

Gross margin increased $8,991,868, or 60.6%, to $23,834,284 in Fiscal 2000 versus $14,842,416 in 1999. As a percentage of net sales, gross margin improved to 23.3% in Fiscal 2000 from 15.1% in 1999. This gross margin improvement is attributable to changing product mix, a significant shift in production during Fiscal 2000 to the Company's lower wage rate factories in the Caribbean, and an inventory reduction program implemented during fourth quarter 1999. The Company is committed to increasing gross margin through improved operating efficiencies in its own factories and higher production levels of ROCKY branded sourced footwear. Net sales of sourced footwear grew to 36% of net sales in Fiscal 2000 from 26% last year.

Selling, General & Administrative Expenses

Selling, general & administrative ("SG&A") expenses increased $628,790, or 3.1%, to $20,649,147 in Fiscal 2000 compared to $20,020,357 in 1999. As a percentage of net sales, SG&A declined slightly to 20.2% from 20.4% in Fiscal 1999. SG&A compared to the prior year included increased commissions from the higher net sales and costs associated with the finished goods distribution center, which began operations in first quarter 2000. During the fourth quarter of Fiscal 2000 the Company reorganized the sales force, reduced its emphasis on casual footwear, and achieved productivity improvements in the finished goods distribution facility. The Company believes that these actions will have a positive effect on operations in Fiscal 2001. In addition, an ongoing cost reduction program will continue to be implemented throughout the Company.

Interest Expense

Interest expense rose $938,706, or 38.9%, to $3,354,388 for Fiscal 2000 from $2,415,682 in Fiscal 1999, principally due to higher rates of interest that prevailed during Fiscal 2000 compared to the prior year. On September 18, 2000 the Company entered into a revolving line of credit agreement with another lender, which also includes a higher borrowing limit, subject to certain levels of collateralized assets of the Company.

Other Income

Other income-net increased $212,970 to $449,257 in Fiscal 2000 compared to $236,287 in Fiscal 1999. The higher level of other income-net is primarily due to increased licensing income.

Income Taxes

The Company recognized income tax expense of $183,464 for Fiscal 2000 compared with an income tax benefit of $2,227,579 for Fiscal 1999. The current year expense resulted from income generated in Rocky Shoes & Boots, Inc. and the Dominican Republic offset by losses in the Company's Puerto Rican subsidiary. The Company's effective tax rate of 65.5% reflects permanent differences, prior year rate reconcilement adjustments and favorable tax treatment in Puerto Rico and the Dominican Republic. Effective in 2000, the Company intends to reinvest accumulated undistributed earnings of Five Star, which amounted to $5,109,000 as of December 2000, in the Dominican Republic. As a result of this decision, no taxes were provided on the 2000 earnings of the Company's Dominican Republic subsidiary.

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 Shoes & Boots, 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.

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. During Fiscal 2000 the Company principally relied upon borrowings under its revolving credit facility. 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. The Company had working capital of $50,200,965 and $48,467,902 at December 31, 2000 and 1999, respectively.

Inventory was $32.0 million at December 31, 2000 or 1.7% lower than on the same date of the prior year. Factors that contributed to this decline included an inventory management program and full operation of the finished goods distribution facility since first quarter 2000. The Company believes its inventory levels at December 31, 2000 are in line with anticipated Fiscal 2001 sales in each footwear category.

The Company also requires capital to support additions to machinery, equipment and facilities as well as the introduction of new footwear styles. Capital expenditures for Fiscal 2000 were $3.1 million compared to $9.7 million the prior year. Capital expenditures are anticipated to be lower in Fiscal 2001 compared to Fiscal 2000.

On September 18, 2000 the Company completed a revolving line of credit agreement with maximum borrowing limits of $50,000,000 subject to certain levels of accounts receivable and inventory, which is $8,000,000 higher than the previous agreement. The agreement expires September 17, 2003. As of December 31, 2000, the Company had borrowed $20,491,101 against its available line of credit of $25,371,101. At December 31, 2000, the Company did not comply with certain bank covenants. On March 27, 2001, the Company obtained a waiver from the bank with respect to such events of noncompliance and amended these covenants through 2001.

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 financing activities during Fiscal 2000 were to support future growth. No single activity represented a significant amount of the total expenditures. In Fiscal 1999 the largest financing activity was the repurchase of 685,100 shares of common stock for $4,300,000. This was primarily financed through increased borrowings under the Company's revolving credit facility. The Company believes it will be able to finance capital additions and meet operating expenditure requirements for Fiscal 2001 through net income, borrowings under its credit facility and other indebtedness.

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. The Company assumes no obligation to update any forward-looking statements.

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, 2000 of $20,491,101. Interest is payable monthly at the bank's LIBOR rate plus 250 basis points or prime plus 25 basis points. (2) The Company also has equipment and other obligations at December 31, 2000, that bear interest at fixed and variable rates ranging from 3.0% to Prime rate plus one-quarter percent (0.25%). (3) The Company has a real estate obligations at December 31, 2000, that bear interest at a fixed and variable rates of 7.625% to 8.275%.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Company's consolidated financial balance sheets as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2000, 1999, and 1998, together with the independent auditors' report thereon appear on pages F-1 through F-21 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 2001 Annual Meeting of Shareholders (the "Proxy Statement") to be held on May 23, 2001, 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 F-1

Consolidated Balance Sheets as of December 31, 2000 and 1999 .... F-2 - F-3
Consolidated Statements of Operations for the fiscal years ended December 31, 2000, 1999, and 1998.. F-4
Consolidated Statements of Shareholders' Equity for the fiscal years ended December 31, 2000, 1999, and 1998... F-5
Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2000, 1999, and 1998.. F-6
Notes to Consolidated Financial Statements for the fiscal years ended December 31, 2000, 1999, and 1998.. F-7 - F-21

(2) The following financial statement schedule for the fiscal years ended December 31, 2000, 1999, and 1998 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.

Independent Auditors’ Report on Financial Statement Schedule.

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 Company (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 Company (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 Company (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 Company's Amended and Restated Articles of Incorporation (see Exhibit 3.1).
4.3	Articles I and II of the Company'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 (incorporated by reference to Exhibit 10.2 to the 1995 Form 10-K).
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 (incorporated by reference to Exhibit 10.4 to the Registration Statement).
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	Indemnification Agreement, dated December 21, 1992, between the Company and Mike Brooks (incorporated by reference to Exhibit 10.10 to the Registration Statement).
10.8	Information concerning Indemnification Agreements substantially similar to Exhibit 10.7 (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")).
10.9	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

Exhibit Number	Description
	ended June 30, 1994 (the "1994 Form 10-K")).
10.10	Decree of Tax Exemption from the Government of the Commonwealth of Puerto Rico (incorporated by reference to Exhibit 10.13 to the Registration Statement).
10.10A	English Translation of Addendum to Exhibit 10.16 (incorporated by reference to Exhibit 10.13A to the Registration Statement).
10.11	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 Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
10.12	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).
10.13	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).
10.13A	English translation of Exhibit 10.13 (incorporated by reference to Exhibit 10.16A to the Registration Statement).
10.14	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")).
10.14A	English translation of Exhibit 10.20 (incorporated by reference to Exhibit 10.2A to the September 30, 1995 Form 10-Q).
10.15	Term Lease Master Agreement, dated April 27, 1993, between the Company and IBM Credit Corporation (incorporated by reference to Exhibit 10.22 to the 1993 Form 10-K).
10.16	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).
10.17	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).
10.18	Form of Stock Option Agreement under the 1995 Stock Option Plan (incorporated by reference to Exhibit 10.28 to the 1995 Form 10-K).
10.19	Letter Agreement between the Company and the Kravetz Group, dated August 3, 1994

Exhibit Number	Description
	(incorporated by reference to Exhibit No. 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995).
10.20	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).
10.21	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).
10.22	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).
10.23	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).
10.24	Information covering Employment Agreements substantially similar to Exhibit 10.23 (incorporated by reference to Exhibit 10.5 to the September 30, 1995 Form 10-Q).
10.25	Termination of Buy-Sell Agreement, dated August 18, 1998, among the Company, 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).
10.26	Employment Agreement, dated April 27, 1999, between the Company and John E. Friday (incorporated by reference to Exhibit 10.49 to the Annual Report on Form 10-K for the year ended December 31, 1999).
10.27	Promissory Note, dated December 30, 1999, in favor of General Electric Capital Business Asset Funding Corporation in the amount of $1,050,000 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (the "June 30, 2000 Form 10-Q")).
10.28	Promissory Note, dated December 30, 1999, in favor of General Electric Capital Business Asset Funding Corporation in the amount of $1,500,000 (incorporated by reference to Exhibit 10.2 to the June 30, 2000 Form 10-Q).
10.29	Promissory Note, dated December 30, 1999, in favor of General Electric Capital Business Asset Funding Corporation in the amount of $3,750,000 (incorporated by reference to Exhibit 10.3 to the June 30, 2000 Form 10-Q).
10.30	Limited Waiver and Modification Agreement, dated May 14, 2000, by and among the Company, Five Star Enterprises Ltd., Lifestyle Footwear, Inc., Bank One, NA, The Huntington National Bank, and Bank One, NA, as agent (incorporated by reference to Exhibit 10.4 to the June 30, 2000 Form 10-Q).

Exhibit Number	Description
10.31	Extension of Limited Waiver and Modification Agreement, dated June 30, 2000, by and among the Company, Five Star Enterprises Ltd., Lifestyle Footwear, Inc., Bank One, NA, The Huntington National Bank, and Bank One, NA, as agent (incorporated by reference to Exhibit 10.5 to the June 30, 2000 Form 10-Q).
10.32	Loan and Security Agreement, dated September 18, 2000, among the Company, Lifestyle Footwear, Inc., and GMAC Business Credit, LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on September 20, 2000).
10.33	First Amendment to Loan and Security Agreement, dated November 20, 2000, among the Company, Lifestyle Footwear, Inc., and GMAC Business Credit, LLC.
10.34	Second Amendment to Loan and Security Agreement, dated March 27, 2001, among the Company, Lifestyle Footwear, Inc., and GMAC Business Credit, LLC.
21	Subsidiaries of the Company (incorporated by reference to Exhibit 21 to the Registration Statement on 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.
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 in this Annual Report on Form 10-K as Exhibit 99.1 and Exhibit 99.2, respectively.

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, 2001

By: /s/ DAVID FRAEDRICH
David 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, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2001
/s/ DAVID FRAEDRICH David Fraedrich	Executive Vice President, Treasurer, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 30, 2001
* CURTIS A. LOVELAND Curtis A. Loveland	Secretary and Director	March 30, 2001
* LEONARD L. BROWN Leonard L. Brown	Director	March 30, 2001
* STANLEY I. KRAVETZ Stanley I. Kravetz	Director	March 30, 2001
* JAMES L. STEWART James L. Stewart	Director	March 30, 2001
*ROBERT D. ROCKEY Robert D. Rockey	Director	March 30, 2001
* GLENN E. CORLETT Glenn E. Corlett	Director	March 30, 2001

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

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Deloitte & Touche

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, 2000 and 1999 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 27, 2001

Deloitte
Touche
Tohmatsu

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,117,994	$ 2,330,324
Accounts receivable - trade, net	18,055,881	18,712,588
Refundable income taxes		3,850,000
Other receivables	2,956,900	1,377,394
Inventories	32,035,237	32,573,067
Deferred income taxes	536,012	1,017,331
Other current assets	1,295,287	1,222,914
Total current assets	56,997,311	61,083,618
FIXED ASSETS, AT COST:		
Property, plant and equipment	47,401,015	45,012,101
Less - accumulated depreciation	(23,070,696)	(18,879,879)
Total fixed assets - net	24,330,319	26,132,222
DEFERRED PENSION ASSET	2,526,603	357,520
OTHER ASSETS	2,196,939	1,759,994
TOTAL ASSETS	$86,051,172	$ 89,333,354

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
CURRENT LIABILITIES:		
Accounts payable	$ 3,502,296	$ 2,128,112
Current maturities - long-term debt	1,070,374	8,599,897
Accrued expenses:		
Taxes - other	560,537	412,721
Salaries and wages	369,925	569,203
Co-op advertising	520,019	128,644
Interest	272,882	198,399
Other	500,313	578,740
Total current liabilities	6,796,346	12,615,716
LONG-TERM DEBT - Less current maturities	26,445,276	25,176,918
DEFERRED LIABILITIES:		
Compensation	187,959	170,294
Income taxes		528,273
Pension	2,295,919	613,023
Total deferred liabilities	2,483,878	1,311,590
Total liabilities	35,725,500	39,104,224
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, Series A, no par value, $.06 stated value; none outstanding 2000 and 1999		
Common stock, no par value; 10,000,000 shares authorized; outstanding 2000 and 1999 - 4,489,215 shares	35,284,159	35,284,159
Retained earnings	15,041,513	14,944,971
Total shareholders' equity	50,325,672	50,229,130
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$86,051,172	$89,333,354

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2000	1999	1998
NET SALES	$102,451,376	$98,099,184	$88,699,413
COST OF GOODS SOLD	78,617,092	83,256,768	68,185,041
GROSS MARGIN	23,834,284	14,842,416	20,514,372
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	20,649,147	20,020,357	17,208,211
INCOME (LOSS) FROM OPERATIONS	3,185,137	(5,177,941)	3,306,161
OTHER INCOME AND (EXPENSES):			
Interest expense	(3,354,388)	(2,415,682)	(1,734,611)
Other - net	449,257	236,287	691,073
Total other - net	(2,905,131)	(2,179,395)	(1,043,538)
INCOME (LOSS) BEFORE INCOME TAXES	280,006	(7,357,336)	2,262,623
INCOME TAX EXPENSE (BENEFIT)	183,464	(2,227,579)	426
NET INCOME (LOSS)	$ 96,542	$ (5,129,757)	$ 2,262,197
NET INCOME (LOSS) PER COMMON SHARE:			
Basic	$ 0.02	$ (1.09)	$ 0.42
Diluted	$ 0.02	$ (1.09)	$ 0.41
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	4,489,215	4,710,039	5,425,026
Diluted	4,493,304	4,710,039	5,526,863

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, 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		39,560,343		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		35,284,159		14,944,971	50,229,130
YEAR ENDED DECEMBER 31, 2000:					
Net income				96,542	96,542
BALANCE, DECEMBER 31, 2000	$	$35,284,159	$	$ 15,041,513	$ 50,325,672

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 96,542	$ (5,129,757)	$ 2,262,197
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,698,554	3,836,586	4,226,313
Deferred income taxes	(46,954)	(1,052,222)	(11,293)
Deferred compensation and pension - net	(468,522)	254,769	138,485
Loss on sale of fixed assets	32,116	9,048	837
Change in assets and liabilities:			
Receivables	2,927,201	(6,690,028)	1,014,968
Inventories	537,830	14,536,944	(14,215,775)
Other current assets	(72,373)	(378,992)	(21,515)
Other assets	(469,514)	(749,720)	58,811
Accounts payable	1,551,745	162,705	(506,171)
Accrued expenses	335,969	277,628	(854,432)
Net cash provided by (used in) operating activities	9,122,594	5,076,961	(7,907,575)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(3,113,529)	(9,675,010)	(6,817,108)
Proceeds from sale of fixed assets	39,770		
Net cash used in investing activities	(3,073,759)	(9,675,010)	(6,817,108)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	106,607,246	57,527,000	79,835,000
Payments on long-term debt	(112,868,411)	(53,555,319)	(64,610,668)
Purchase of treasury stock		(4,285,184)	(2,038,118)
Proceeds from exercise of stock options		9,000	214,462
Net cash provided by (used in) financing activities	(6,261,165)	(304,503)	13,400,676
DECREASE IN CASH AND CASH EQUIVALENTS	(212,330)	(4,902,552)	(1,324,007)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,330,324	7,232,876	8,556,883
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,117,994	$ 2,330,324	$ 7,232,876

See notes to consolidated financial statements.

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
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 Company sales representatives who sell the Company's products primarily through independent shoe, sporting goods, specialty, uniform stores and catalogs, and through mass merchandisers throughout the United States. The Company did not have any customers that accounted for more than 10% of consolidated net sales in 2000, 1999 and 1998.

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 $503,000 and $715,000 at December 31, 2000 and 1999, 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 the majority 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 19 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.

The Company sources a significant portion of its footwear from manufacturers in the Far East, primarily China. The Company has had sourcing operations in China since 1993 and is not aware of any governmental or economic restrictions that would alter its current sourcing 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.

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

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 $2,532,671, $2,997,462 and $2,323,372 for 2000, 1999 and 1998, respectively.

Revenue Recognition - Revenue and related cost of goods sold are recognized at the time footwear product is shipped to the customer and title transfers. Revenue 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 loss 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,		
	2000	**1999**	**1998**
Basic - Weighted average shares outstanding	4,489,215	4,710,039	5,425,026
Dilutive securities:			
Preferred stock			7,365
Stock options	4,089		94,472
Diluted - Weighted average shares outstanding	4,493,304	4,710,039	5,526,863

In 1999, no adjustments to net loss were required for purposes of computing diluted per share amounts. 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 - Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133 certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted SFAS 133 effective January 1, 2001. Management does not expect the adoption of SFAS 133 to have a significant impact on the financial position, results of operations, or cash flows of the Company.

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:

	2000	% of Net Sales	1999	% of Net Sales	1998	% of Net Sales
Rugged Outdoor	$ 61,828,170	60.4 %	$51,029,943	52.0 %	$47,640,000	53.7 %
Occupational	27,991,923	27.3 %	29,847,018	30.4 %	23,847,520	26.9 %
Handsewn Casual	6,178,237	6.0 %	8,927,026	9.1 %	8,071,647	9.1 %
Factory Outlet Stores	5,872,380	5.7 %	5,199,257	5.3 %	4,878,468	5.5 %
Other	580,666	0.6 %	3,095,940	3.2 %	4,261,778	4.8 %
Total	$102,451,376	100.0 %	$98,099,184	100.0 %	$88,699,413	100.0 %

Net sales to foreign countries, primarily Canada, represented approximately 1% of net sales in 2000, 1999, and 1998.

Reclassifications - Certain amounts in the prior years' consolidated financial statements have been reclassified to conform with 2000 presentation.

2. INVENTORIES

Inventories are comprised of the following:

	December 31, 2000	December 31, 1999
Raw materials	$ 5,043,839	$ 4,133,520
Work-in-process	1,288,960	2,128,738
Finished goods	23,604,593	24,110,469
Factory outlet finished goods	2,438,398	2,645,340
Less reserve for obsolescence or lower of cost or market	(340,553)	(445,000)
Total	$ 32,035,237	$ 32,573,067

3. FIXED ASSETS

Fixed assets are comprised of the following:

	December 31, 2000	December 31, 1999
Land	$ 572,838	$ 557,071
Building and improvements	13,892,507	6,314,768
Machinery and equipment	23,021,226	21,765,027
Furniture and fixtures	3,854,503	3,479,787
Lasts, dies and patterns	6,029,904	5,509,926
Construction work-in-progress	30,037	7,385,522
Total	47,401,015	45,012,101
Less - accumulated depreciation	(23,070,696)	(18,879,879)
Net fixed assets	$ 24,330,319	$ 26,132,222

4. LONG-TERM DEBT

Long-term debt is comprised of the following:

	December 31, 2000	December 31, 1999
Bank - revolving credit facility	$ 20,491,101	$ 31,900,000
Equipment and other obligations	896,408	1,687,898
Real estate obligations	6,108,661	56,875
Other	19,480	132,042
Total debt	27,515,650	33,776,815
Less current maturities	1,070,374	8,599,897
Net long-term debt	$ 26,445,276	$ 25,176,918

On September 18, 2000, the Company entered into a three-year loan and security agreement with GMAC Business Credit, LLC (GMAC) refinancing its former bank revolving line of credit based on the collateral value of its accounts receivable and inventory. The new agreement replaces the Company's previous loan and security agreement with a bank and increases the Company's borrowing base from $42,000,000 to a maximum of $50,000,000. Interest on the revolving credit facility is payable monthly at one-quarter percent (0.25%) per annum in excess of the GMAC's Prime rate, and the entire principal is due September 17, 2003. Under terms of the agreement, the Company has the option to borrow up to half of their outstanding obligation at LIBOR plus two and one-half percent (2.50%). The interest rate for the outstanding balance at December 31, 2000 was 9.75% (6.01% at December 31, 1999).

Amounts borrowed under the agreement are secured by accounts receivable, inventory, equipment, intangible assets of the Company and its wholly-owned domestic subsidiary, Lifestyle Footwear, Inc. Additional security includes 65% of the capital stock of the Company's wholly-owned foreign subsidiary, Five Star Enterprises, Ltd., and 100% of the capital stock of the Company's wholly-owned domestic subsidiary.

The loan and security agreement contains certain restrictive covenants, which among other things, require the Company to maintain a certain level of EBITDA (earnings before interest, taxes, and depreciation and amortization), net worth, and fixed charge coverage. At December 31, 2000, the Company was not in compliance with these bank covenant requirements. In March 2001, the Company obtained a waiver from GMAC with respect to such events of noncompliance and amended the loan covenants for 2001. Management believes the Company will be in compliance with the revised 2001 covenants.

Equipment and other obligations at December 31, 2000 bear interest at fixed and variable rates ranging from 3% to prime rate plus one-quarter percent (.25%) and are payable in monthly installments to 2003. The equipment is held as collateral against the outstanding obligations.

In January 2000, the Company completed a mortgage financing facility with GE Capital Corp. for three of its facilities totaling $6,300,000. The facility bears interest at 8.275%, with total monthly principal and interest payments of $63,100 to 2014. The proceeds of the financing were used to pay down borrowings under a former 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. 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 remaining interest rate swap agreement for a notional amount of $15,000,000 was terminated during the second quarter 2000 and resulted in a gain of $294,000. At December 31, 2000 the Company has no interest rate swap agreements.

At December 31, 2000 essentially all trade accounts receivable, inventories and property are held as collateral for the Company's debt.

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

2001	$ 1,070,374
2002	470,650
2003	20,486,161
2004	503,933
2005	492,020
Thereafter	4,492,512
Total	$ 27,515,650

The estimated fair value of the Company's long-term obligations approximated their carrying amount at December 31, 2000 and 1999, based on current market prices for the same or similar issues or on debt available to the Company with similar rates and maturities.

5. OPERATING LEASES

The Company leases certain machinery and manufacturing facilities under operating leases that generally provide for renewal options. The Company incurred approximately $1,161,000, $1,069,000, and $840,000 in rent expense under operating lease arrangements for 2000, 1999 and 1998, respectively.

Included in total rent expense above are monthly payments of $7,000 for 2000, 1999 and 1998, 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:

2001	$ 788,000
2002	656,000
2003	564,000
2004	536,000
2005	536,000
Thereafter	700,000
Total	$ 3,780,000

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, 2000, a provision has not been made for U.S. taxes on the accumulated undistributed earnings of Five Star through December 31, 2000 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,		
	2000	1999	1998
Federal:			
Current	$(115,262)	$(1,273,033)	$(76,294)
Deferred	263,071	(1,007,542)	10,357
Total Federal	147,809	(2,280,575)	(65,937)
State and local:			
Current	345,680	97,676	88,013
Deferred	(310,025)	(44,680)	(21,650)
Total state and local	35,655	52,996	66,363
Total	$ 183,464	$(2,227,579)	$ 426

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,		
	2000	1999	1998
Expected expense (benefit) at statutory rate	$ 95,202	$(2,501,494)	$ 769,286
Increase (decrease) in income taxes resulting from:			
Exempt (income) loss from operations in Puerto Rico, net of tollgate taxes	77,938	563,663	(802,791)
Exempt income from Dominican Republic operations	(74,034)	(625,978)	
State and local income taxes (benefit)	23,532	(18,019)	(22,563)
Revision of prior year taxes	56,229		
Alternative minimum tax		118,829	
Other - net	4,597	182,424	(9,869)
Total	$183,464	$(2,280,575)	$ (65,937)

Deferred income taxes recorded in the consolidated balance sheets at December 31, 2000 and 1999 consist of the following:

	2000	1999
Deferred tax assets:		
Alternative minimum tax carryforward - Rocky	$ 118,829	$ 118,829
Alternative minimum tax carryforward - Lifestyle	188,800	
Asset valuation allowances	648,577	549,265
Pension and deferred compensation	202,291	168,755
Net operating loss carryforwards	1,657,782	1,854,661
Inventories	318,267	309,066
Total deferred tax assets	3,134,546	3,000,576
Deferred tax liabilities:		
Fixed assets	(1,497,685)	(1,630,696)
State and local income taxes	(47,425)	
Prepaid assets	(276,989)	(40,048)
Tax on Five Star earnings		(64,339)
Tollgate tax on Lifestyle earnings	(776,435)	(776,435)
Total deferred tax liabilities	(2,598,534)	(2,511,518)
Net deferred tax asset	$ 536,012	$ 489,058

At December 31, 2000, the Company has approximately $4,062,000 of net operating loss carryforwards for Federal income tax purposes. The expiration of such carryforwards in 2001 is $213,000. 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.

In April 2000, the Company announced that certain union and non-union employees were eligible to participate in voluntary early retirement plans. As part of the plans, employees who accepted the offers received increased retiree benefits that are to be paid from plan assets over the employees established retirement period. The effect of the union and non-union plan amendments increased the Company's benefit obligation $1,907,868.

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

	Year Ended December 31,		
	2000	1999	1998
Service cost	$ 303,748	$ 323,726	$ 273,091
Interest	403,542	356,194	317,725
Actual loss (return) on plan assets	(185,315)	(404,283)	42,745
Amortization and deferral	(58,162)	152,373	(327,398)
Net pension cost	$ 463,813	$ 428,010	$ 306,163

The funded status of the Company's plans and reconciliation of accrued pension cost at December 31, 2000 and 1999 are presented below (information with respect to benefit obligations and plan assets as of September 30 is):

	December 31,	
	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of the year	$ 5,422,818	$ 5,463,914
Service cost	303,748	323,726
Interest cost	403,542	356,194
Actuarial gain		(433,965)
Amendments	1,907,868	
Exchange (gain)/loss	248,684	(93,418)
Benefits paid	(301,653)	(193,633)
Benefit obligation at end of year	$ 7,985,007	$ 5,422,818
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 4,387,026	$ 3,906,376
Actual return on plan assets	185,315	404,283
Employer contribution	300,000	270,000
Benefits paid	(301,653)	(193,633)
Fair value of plan assets at end of year	$ 4,570,688	$ 4,387,026
Funded deficit	$(3,414,319)	$(1,035,792)
Remaining unrecognized benefit obligation existing at transition	232,362	260,255
Unrecognized prior service costs due to plan amendments	2,473,620	688,260
Unrecognized net loss (gain)	289,021	(168,226)
Adjustment required to recognize minimum liability	(2,526,603)	(357,520)
Additional contributions (September 30-December 31)	650,000	
Accrued pension cost	$(2,295,919)	$ (613,023)

The assets of the plans consist primarily of common stocks, bonds, and cash equivalents. The assets of the plans include 61,400 and 61,000 shares of the Company's common stock with a market value of $314,675 and $468,000 at September 30, 2000 and 1999, 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,	
	2000	**1999**
Discount rate	7.25 %	7.25%
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 $2,526,603, and $357,520 as of December 31, 2000 and 1999, 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 2000 and 1999.

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, 2000 and 1999, 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, 2000, the Company's Board of Directors has not authorized any additional share repurchase. There were no treasury stock purchases in 2000.

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, 1998 through December 31, 2000:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 1998	407,960	$ 8.74
Issued	210,000	9.37
Exercised	(22,890)	8.94
Forfeited	(34,660)	8.28
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
Issued	221,000	6.87
Forfeited	(232,250)	8.40
Outstanding at December 31, 2000	682,500	$ 8.64
Options exercisable at December 31:		
1998	359,785	$ 10.01
1999	386,035	$ 9.27
2000	444,250	$ 9.37

The following table summarizes information about options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$4.50 - $6.75	269,750	7.0	$ 5.75	135,500	$ 5.97
$7.50 - $9.00	215,750	6.1	$ 8.05	138,625	$ 8.28
$9.50 - $9.875	71,500	2.3	$ 9.75	70,500	$ 9.75
$13.125 - $16.875	125,500	6.0	$ 15.22	99,625	$ 15.23
Total	682,500	6.0	$ 8.64	444,250	$ 9.37

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 2000, 1999 and 1998, respectively; dividend yield of 0%; expected volatility of 45%, 41% and 48%; risk-free interest rates of 6.70%, 6.66% and 5.29%; and expected life of 6 years. The weighted average grant date fair value of options issued during 2000, 1999 and 1998 was $3.09, $3.40 and $8.55, respectively.

	Year Ended December 31,		
	2000	1999	1998
Net income (loss):			
As reported	$ 96,542	$(5,129,757)	$2,262,197
Pro forma	$ (99,255)	$(5,201,230)	$1,301,976
Income (loss) per share:			
As reported:			
Basic	$ 0.02	$ (1.09)	$ 0.42
Diluted	$ 0.02	$ (1.09)	$ 0.41
Pro forma:			
Basic	$ (0.02)	$ (1.10)	$ 0.24
Diluted	$ (0.02)	$ (1.10)	$ 0.24

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,		
	2000	1999	1998
Interest	$ 3,279,905	$2,547,104	$1,756,078
Federal, state and local income taxes - net of refunds	$(3,450,000)	$2,370,588	$1,210,445

The Company entered into no capital lease arrangements during the years ended December 31, 2000, 1999 and 1998. Accounts payable at December 31, 2000, 1999 and 1998 include a total of $12,098, $189,659 and $418,278, respectively, relating to the purchase of fixed assets.

10. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2000 and 1999:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
2000					
Net sales	$14,842,111	$22,918,457	$36,994,402	$27,696,406	$102,451,376
Gross margin	3,243,760	5,276,084	8,508,498	6,805,942	23,834,284
Net income (loss)	(1,615,568)	343,288	1,262,972	105,850	96,542
Net income (loss) per common share:					
Basic	($0.36)	$0.08	$0.28	$0.02	$0.02
Diluted	($0.36)	$0.08	$0.28	$0.02	$0.02
1999					
Net sales	$13,622,730	$23,200,428	$34,458,907	$26,817,119	$98,099,184
Gross margin	3,178,670	5,963,422	8,784,203	(3,083,879)	14,842,416
Net income (loss)	(321,973)	587,650	1,818,221	(7,213,655)	(5,129,757)
Net income (loss) per common share					
Basic	($0.06)	$0.12	$0.40	($1.55)	($1.09)
Diluted	($0.06)	$0.12	$0.40	($1.55)	($1.09)

No cash dividends were paid during 2000 and 1999.

* * * * * *

MARKET MAKERS

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

- Herzog, Heine, Geduld, Inc.
- Instinet Corporation
- Knight Securities, Inc.
- McDonald & Company Securities, Inc.
- Mitchell Securities Corporation of Oregon
- NDB Capital Markets, Inc.
- Spear Leeds & Kellogg Capital Markets

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Wednesday, May 23, 2001, at 9:30 a.m., at the Company's Finished Goods Distribution Center, located at 37601 Rocky Boots Way, Logan, Ohio.

BOARD OF DIRECTORS

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

Leonard L. Brown
President
Leonard L. Brown, Inc

Glenn E. Corlett
Dean and Philip J. Gardner, Jr.
Leadership Professor of the
College of Business at Ohio
University

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.

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

David Sharp
Vice President of Sales and
Marketing

Corporate Offices
39 E. Canal Street
Nelsonville, Ohio 45764
(614) 753-1951

Stock Listing
NASDAQ National Market
Symbol: RCKY

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

Independent Accountants
Deloitte & Touche 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

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

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 and Chief Financial Officer
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